

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Grosse Pointe Farms, Michigan</u>	County <u>Wayne</u>
Audit Date <u>June 30, 2005</u>	Opinion Date <u>October 31, 2005</u>	Date Accountant Report Submitted To State: <u>December 29, 2005</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address <u>10 South Main Street, Suite 200</u>	City <u>Mount Clemens</u>	State <u>MI</u>	ZIP <u>48043</u>
Accountant Signature 			

City of Grosse Pointe Farms, Michigan

Comprehensive Annual Financial Report

with Supplemental Information

June 30, 2005

Comprehensive Annual Financial Report

City of Grosse Pointe Farms, Michigan

For the Fiscal Year Ended June 30, 2005

City Council

James C. Farquhar - Mayor

Charles S. "Terry" Davis III

Joseph T. Leonard

Douglas F. Roby

Therese Joseph

Peter W. Waldmeir

Louis Theros

Shane L. Reeside - City Manager

John Modzinski - City Controller

Audit Committee

Charles S. "Terry" Davis III

James C. Farquhar

Louis Theros

City of Grosse Pointe Farms, Michigan

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Introductory Section



City of Grosse Pointe Farms

90 Kerby Road, Grosse Pointe Farms, Michigan 48236-3161

phone 313 885.6600 fax 313 885.0917

31 October, 2005

To the Honorable Mayor and City Council
City of Grosse Pointe Farms
Grosse Pointe Farms, Michigan 48236

With this letter, we transmit the City of Grosse Pointe Farms' Comprehensive Annual Financial Report (CAFR) for the fiscal year which ended June 30, 2005. This report has been prepared pursuant to, and in compliance with State statutes, which require the City to publish a complete set of financial statements within six months of the close of each fiscal year. These statements are in compliance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards. This transmittal letter is designed to complement the Management Discussion & Analysis (MD&A) section of this report and should be used in conjunction with it. The MD&A immediately follows the report of the independent auditors.

The financial statements have been prepared by the City Controller's Department for the purpose of disclosing the City's financial condition to its residents, elected officials, and other interested parties. Management assumes full responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures.

The City of Grosse Pointe Farms' financial statements have been audited by Plante & Moran, PLLC. The purpose of an independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The audit concluded that there was a reasonable basis for rendering an unqualified opinion that the City of Grosse Pointe Farms' financial statements for the year ending June 30, 2005 are fairly presented in conformity with GAAP. Plante & Moran's report is presented as the first component of the financial section of this report.

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter and the City's organizational chart. The financial section includes the basic financial statements and the combining and individual fund financial statements and schedules, as well as the auditor's report on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

This report includes all funds of the City. The City provides a full range of services including police and fire protection, sanitation services, recreational activities, parks, construction and maintenance of streets and infrastructures, and the operation of a water utility system.

ECONOMIC CONDITION & OUTLOOK

The City of Grosse Pointe Farms is an affluent, suburban community located in the northeast corner of Wayne County and nestled among its four Grosse Pointe neighbors between the City of Detroit on its west and Lake St. Clair on its east. Its population of 9,764 is distributed among almost 3,900 households, having a median household income of \$100,153 and an average per capita income of \$54,846. The median value of an owner-occupied residence in the City is \$295,100. The labor force is composed largely of managerial and professional personnel, of which over 70% has some level of college education. The unemployment rate among Farms' residents is less than 2%.

The City is ideally situated in relation to major transportation routes, including I-94 and I-696. Its location along Lake St. Clair provides a scenic and recreational asset of indeterminable value. The reputation for excellence of the Grosse Pointe Public School System is widely recognized and draws families to the community. But more importantly, the City itself is committed to preserving and enhancing the viability of the community, its history and heritage, the quality of its housing stock, the repair and replacement of its infrastructure, the safety and welfare of its citizens and visitors, the aesthetics of its environs, the provision of cost efficient services, and the special enhancements that make a city a community.

Currently, the State of Michigan is in an economic downturn. Approximately 7 percent of the City's total revenues come from sales tax that is collected by the State and shared with local units of government. Due to reductions in statewide collections of state taxes, the State government has retained a high portion of the sales tax in order to balance its own budget. This has resulted in a decrease in state-shared revenue in the current year, and further reductions are being anticipated by the City for the near future. Fortunately, unlike most communities in the State, Grosse Pointe Farms reliance on State Shared Revenue is a relatively small portion of the City's budget. This is due to a strong residential tax base which makes up almost 95% of the tax roll.

In conclusion, the economic outlook for the City of Grosse Pointe Farms continues to be good. The City has maintained a strong financial position as a result of significant gains in property tax receipts, which are generated by the continued strength of the local economy and City Council's and management's prudent budgeting practices.

MAJOR INITIATIVES

An important initiative for any fiscal year is securing and protecting the stabilization of the total fund balance position, while addressing current and future capital outlay requirements. Through a series of budgetary actions and careful control of expenditure requests, this initiative has been achieved. While reducing the tax rate each year over the past three years, the City has maintained the lowest operating millage in the Grosse Pointes. In past years, we have been able to increase the surplus by \$979,249 in fiscal year (FY) 2000-2001 and \$9,342 in FY 2001-2002. However, in FY 2002-2003, the City used \$554,399 of fund balance to implement a leaf collection program, purchase a Vactor Jet for sewer cleaning, and purchase a home in the Farms, which was originally intended to create parking on the 'Hill', but now will be resold. With an accounting change adding \$317,904 to the beginning fund balance in FY 2002-2003, the beginning fund balance at June 30, 2003 of the General Fund totaled \$3,638,899. In FY 2003-2004, the Farms added \$240,418 to its fund balance in the General Fund, and \$194,398 in FY 2004-2005, leaving an ending fund balance of \$4,073,715 at June 30, 2005, of which \$79,671 was reserved for inventories and prepaid items, \$1,570,263 was reserved or designated for future capital outlay, and \$2,423,781 was undesignated.

A second area of emphasis this past year has been in our recreation infrastructure. The City of Grosse Pointe Farms is noted for its exceptional recreational amenities. This spring, the City opened the doors to a new 2.75 million dollar Community Building at the Pier Park. It has quickly become the centerpiece that anchors the improvements completed at the Pier Park during the past decade. With the new facility, an array of new recreational programs has been implemented. It is believed that the Community Center will significantly contribute to the desirability of residing in Grosse Pointe Farms.

The City has budgeted capital project funds to pay for debt service for this project. It should be noted that in bonding for this project the City saw its bond rating upgraded from AA- to AA+ and as a result, is receiving a very favorable interest rate. In addition, the Grosse Pointe Farms Foundation, a non-profit organization, has contributed over \$250,000 for this project.

One of the City's greatest assets is its location on Lake St. Clair. To further take advantage of this asset, the City has begun a project that makes major renovations and expands the Pier Park Harbor adding to the number and size of wells in order to better meet demand and provide upgraded utilities. The intent is to rely on well rental income to pay for the improvements without subsidy from the General Fund.

At Kerby Field, the City partnered with a private communications provider and the Grosse Pointe Farms Foundation to construct a new half million dollar field house building to replace an outdated and unattractive structure that was sitting in the outfield of a baseball diamond. The new building has been moved between the two ball fields, so not to impede play, and resembles a traditional carriage house. It will be used in the summer for a wide variety of recreational activities and will feature new ADA accessible bathrooms, a concession area and an outside patio with seating. In the winter, the building will be used as a warming area for adjacent ice skating. The attic space holds wireless communication equipment that will provide greater communication access to the Grosse Pointe communities. Although the building was paid off during the fiscal year, in part from a \$100,000 contribution from the Grosse Pointe Farms Foundation, as well as lease revenue and additional tax revenue on the personal property for many years to come.

Third, our business districts continue to thrive. The City of Grosse Pointe Farms doesn't have a significant industrial base. Only approximately 4% of its state equalized value is commercial property, located primarily in two neighborhoods: a one mile strip of shops on its border with Detroit along Mack Avenue, and its central business district known as the "Hill" on Kercheval, between Muir Road and Fisher Road. Though these districts make up a small part of the overall community in terms of geography, they are vitally important to the quality of life our residents enjoy. Both districts have experienced resurgence and suffer few storefront vacancies today. The recent construction of a new bank building on the "Hill" serves as an architectural anchor to this quaint business district. This year also saw the opening of another fine dining establishment and a coffee house.

And finally, public safety continues to be a top priority. The City provides a high level of police, fire, and ambulance services. Emphasis continues to focus on technology enhancements. The City has completed its upgrade to an 800 MHz digital radio system that allows the ability to interconnect with other communications systems on a regional basis. Grosse Pointe Farms, being the operating municipality for the consortium communities of the Grosse Pointes and Harper Woods, purchased the infrastructure on behalf of the other cities and oversaw its installation during calendar year 2001. The City has completed the implementation of a two-year phase of CLEMIS which provides in-car computers giving public safety officers access to vital information literally at their fingertips. Through grants, the public safety department was successful in obtaining new equipment for the filling of SCBA air tanks, new breathalyzer equipment, and protective vests for all officers.

In addition to the accomplishments addressing infrastructure needs, the City continues to implement efficiencies in various operating departments in an ongoing effort to provide excellence in city services.

For the Future:

Although temporary recreational use of the City owned Mack and Moross property has seen much activity this year with the creation of a soccer field, the planning for the future development of the property will consume a great deal of effort in the coming years.

Another major asset of the City is its own water filtration plant. The City has consistently provided water to our residents and our customer, Grosse Pointe City, at a lower rate than charged by the Detroit Water and Sewage Department (DWSD). In addition, by having our own plant the City has benefited by excess capacity, which has prevented water restrictions during peak use in the hot summer months, and a backup generator that kept water service from being interrupted.

However, the 1920's plant is in need of significant maintenance. A five year capital projects budget has been developed to address those needs. In addition, the City of Grosse Pointe Farms is working with the cities of Grosse Pointe Woods and Grosse Pointe Shores to explore the feasibility of providing water to these two communities.

Lastly, one would be remiss not to discuss the devastating effect pension and employee health care costs have had on organizations in both the public and private sectors. The City's two retirement systems are requiring increased contributions from the general fund. Steps have been taken to increase funding contributions made by active employees and for the first time, new employees are required to make contributions for post-retirement health care benefits. In addition, the City has modified its health care plans to increase deductibles and co-pays, and has started to self insure some benefits.

Emphasis will continue on making government more efficient and effective, improving service levels while decreasing costs where possible. Reengineering government to make it more responsive to our rapidly changing world, to citizen and employee needs, will be the test of future success.

FINANCIAL INFORMATION

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurances that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgeting Controls

The object of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General, Special Revenue, Capital Projects, and Debt Service Funds are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function within an individual fund.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

General Government Functions

The following schedule presents a summary of all governmental fund type revenues for the fiscal year ended June 30, 2005 and the amount of percentage of increases and decreases in relation to prior year revenues.

<u>Revenue Source</u>	<u>FY 2005 Amount</u>	<u>Percent Of Total</u>	<u>Increase <Decrease> from 2004</u>	<u>Percent of Increase <Decrease></u>
Property taxes	\$ 9,081,308	68.34%	\$ 290,022	3.30%
Licenses and permits	300,392	2.26%	56,840	23.34%
Federal sources	153,087	1.16%	35,095	29.74%
State sources	1,435,085	10.80%	(10,846)	(0.75%)
Charges for services	1,078,316	8.11%	(62,105)	(5.45%)
Fines and forfeitures	426,898	3.21%	1,036	0.24%
Interest	330,665	2.49%	69,124	26.43%
Other	<u>482,794</u>	<u>3.63%</u>	<u>349,565</u>	<u>262.38%</u>
Total	<u>\$ 13,288,545</u>	<u>100.00%</u>	<u>\$ 728,729</u>	

Property tax revenue would have increased 4.0%, if the tax rate had remained the same. Home improvements and reconstruction continues to be a driving force in increasing taxable S.E.V.'s. Strong building permit revenue accounts for the large increase in licenses and permits. Federal sources increased because of additional grants obtained for public safety equipment. The state's economic downturn has again caused a decline the City's State-shared revenue. Charges for services declined, as home alarm registration fees were billed out in FY2004; this fee is billed out once every five years. After four years of declining interest rates, overnight interest rates rose almost 200 basis points during the fiscal year. The longer term rates have risen as well, but not as dramatically. The result at the end of the fiscal year was a relatively flat yield curve, with only a 100 basis point differential from overnight rates to four-year certificates of deposit. The City's investment strategy will be more cautious with longer term investments to reduce maturation risk, while maximizing the return on investments by primarily investing in new issues maturing from one to two years after the date of purchase. Finally, the City received two donations totaling \$325,000 for the construction of two buildings.

The following schedule presents a summary of all governmental fund type expenditures for the fiscal year ended June 30, 2005 and the percentage of increases and decreases in relation to prior year amounts.

<u>Expenditures</u>	<u>Amount</u>	<u>Percent Of Total</u>	<u>Increase <Decrease> from 2004</u>	<u>Percent of Increase <Decrease></u>
General government	\$ 984,008	6.34%	\$ (44,620)	4.34 %
Public safety	4,336,236	27.95%	101,454	2.40%
Public works	2,124,012	13.69%	(359,093)	(14.46%)
Public service	537,173	3.46%	(25,451)	(4.52%)
Municipal Court	278,397	1.79%	18,786	7.24%
Recreation and culture	932,253	6.00%	10,303	1.12%
Other	1,600,115	10.32%	346,891	27.67%
Capital outlay	4,632,617	29.86%	3,817,920	468.62%
Debt service	<u>90,000</u>	<u>0.59%</u>	<u>(469,305)</u>	<u>(84.36%)</u>
Total	<u>\$ 15,514,811</u>	<u>100.00%</u>	<u>\$ 3,396,885</u>	

Cost-cutting measures, such as self-funding health insurance as of May 2005 and competitive purchasing of supplies, helped reduce departmental operating expenditures. The lack of paving projects during the fiscal year accounts for most of the reduction in public works and streets. Municipal court expenditures rose due to additional personnel and contractual costs related to departmental activity. Other functions expenses continue to rise, with additional pension contributions accounting for more than half of the increase over last year. Over \$3,500,000 was spent on two new buildings for parks and recreation, as discussed earlier.

General Fund Balance

The total fund balance of the General Fund increased by \$194,398 to \$4,073,715. A total of \$79,671 was reserved for inventories and prepaid items and \$1,570,263 was designated for subsequent years' capital outlay, leaving an undesignated fund balance of \$2,423,781.

Enterprise Operations

The City operates its own water supply and sewage pumping system. The operating revenue of the Water and Sewer Fund amounted to \$3,151,377, which is an increase of \$107,987 from the preceding year. During the same period, operating expenses, excluding depreciation, were \$3,139,055. After providing for depreciation, the system experienced an operating loss of \$263,127.

Pension Trust Fund Operations

The operations of the Public Safety Officers and General Employees Retirement Systems produced sound returns during the fiscal year, posting a strong gain of approximately 7.7%. The system's reserves increased by \$957,178 (PSRS) and \$728,504 (GERS), respectively. The annual actuarial valuation is still strong, as the funding level for PSRS is approximately 120% and 89% for GERS.

Debt Administration

At June 30, 2005, the City had \$13,138,308 of general obligation debt outstanding, as well as an installment purchase agreement of \$275,028. The net direct tax supported debt is also \$13,138,308, and is the equivalent of \$1,345.59 per capita and represents less than two percent of the City's state equalized valuation. Under current state statutes, the City's general obligation bonded debt issues are subject to a legal limitation based on ten percent of total equalized value of real and personal property. As of June 30, 2005, the City's general obligation bonded debt was well below the legal limit of \$74,129,956.

Cash Management

Cash temporarily idle during the year was invested in demand deposits; certificates of deposit, physical and negotiable; bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; and government pooled investment accounts. Yields on investments ranged from about 2.70% in pooled investment accounts, and 2.65% to 6.95% in CD's and obligations of the United States. The pension trust and nonexpendable trust funds' investment portfolios also include corporate bonds and stocks.

The City administers an active cash management and investment program. The primary goals are to maximize the amount of cash available for investments, to earn the maximum financial return on available funds, and to safeguard the invested principal. The City takes full advantage of temporary idle funds, which also includes vendor payments. To ensure the most competitive rates on investments, the cash resources of the individual funds, excluding certain fiduciary funds, are combined to form a pool of cash for investment.

Risk Management

The City has entered into a joint powers agreement with other Michigan units of government by joining the Michigan Municipal Liability & Property Pool for its general liability insurance, including auto and public official liability as well as property damage insurance. The City has also established a self-insured worker's compensation program with third party administration and reinsurance coverage for claims over \$375,000.

OTHER INFORMATION

Independent Audit

The City Charter and state statutes require an annual audit of all accounts of the City by certified public accountants. The accounting firm of Plante & Moran, PLLC, was selected by the City Council. The auditor's report on the general purpose financial statements and combining and individual fund financial statements is included in the financial section of this report.

Certificate of Achievement

The Government Finance Officer's Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Grosse Pointe Farms for its comprehensive annual financial reports for the fiscal year ending June 30, 2004. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Grosse Pointe Farms has received a Certificate for the last 12 consecutive years (fiscal years 1993-2004). We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement program's requirements, and are submitting it to the GFOA.

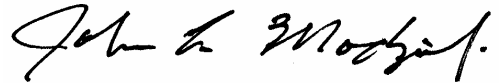
Acknowledgements

The preparation of this Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the accounting staff as well as various employees throughout the City. Our sincere appreciation is expressed to each of them as well as to the City Council for their consistent support throughout the year in matters pertaining to the financial affairs of the City.

Respectfully submitted,



Shane L. Reeside
City Manager



John L. Modzinski
City Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Grosse Pointe Farms,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial
Reporting is presented by the Government Finance Officers
Association of the United States and Canada to
government units and public employee retirement
systems whose comprehensive annual financial
reports (CAFRs) achieve the highest
standards in government accounting
and financial reporting.



Nancy L. Ziehl

President

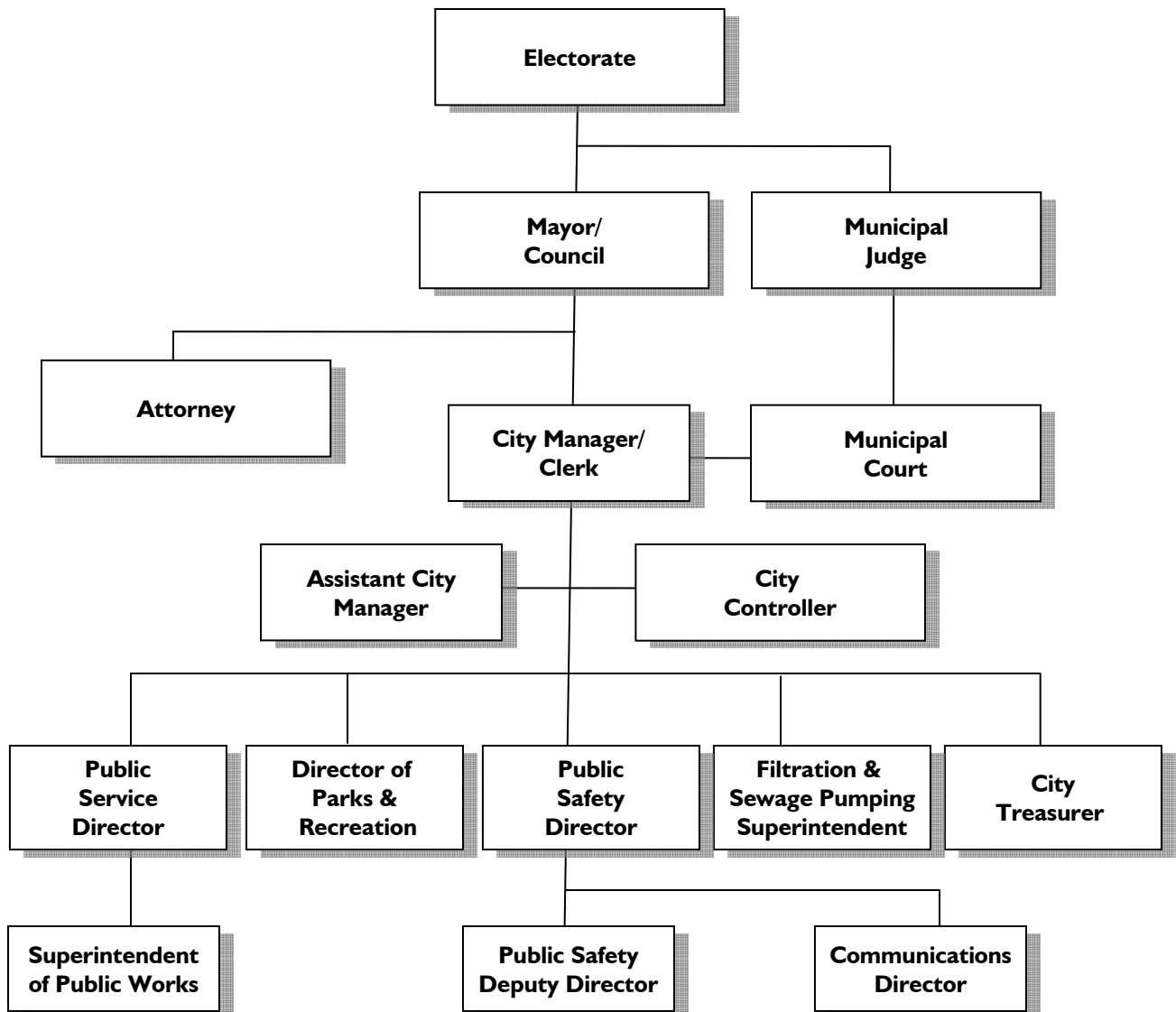
Jeffrey R. Enen

Executive Director

City of Grosse Pointe Farms

June 30, 2005

Organizational Chart



Financial Section

Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of Grosse Pointe Farms, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grosse Pointe Farms, Michigan (the "City") as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison information, and schedules of pension system funding progress (as identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and Members
of the City Council
City of Grosse Pointe Farms, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory section, other supplemental information, and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining statements included in other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Plante & Moran, PLLC

October 31, 2005

City of Grosse Pointe Farms, Michigan

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2005 compared to the prior year (in thousands of dollars):

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 8,581	\$ 8,186	\$ 1,706	\$ 1,365	\$ 10,287	\$ 9,551
Noncurrent assets:						
Long-term receivables	-	-	-	275	-	275
Restricted assets	1	-	1,518	10	1,519	10
Capital assets	<u>20,078</u>	<u>16,575</u>	<u>15,098</u>	<u>15,265</u>	<u>35,176</u>	<u>31,840</u>
Total assets	28,660	24,761	18,322	16,915	46,982	41,676
Liabilities						
Current liabilities	1,434	1,017	529	522	1,963	1,539
Long-term liabilities	<u>3,651</u>	<u>1,010</u>	<u>10,970</u>	<u>10,172</u>	<u>14,621</u>	<u>11,182</u>
Total liabilities	<u>5,085</u>	<u>2,027</u>	<u>11,499</u>	<u>10,694</u>	<u>16,584</u>	<u>12,721</u>
Net Assets						
Invested in capital assets -						
Net of related debt	17,585	16,485	5,695	5,159	23,280	21,644
Restricted	571	345	-	10	571	355
Unrestricted	<u>5,419</u>	<u>5,904</u>	<u>1,128</u>	<u>1,052</u>	<u>6,547</u>	<u>6,956</u>
Total net assets	<u>\$ 23,575</u>	<u>\$ 22,734</u>	<u>\$ 6,823</u>	<u>\$ 6,221</u>	<u>\$ 30,398</u>	<u>\$ 28,955</u>

City of Grosse Pointe Farms, Michigan

Management's Discussion and Analysis (Continued)

The City's combined net assets increased 4.9 percent from a year ago - from \$28,954,510 to \$30,398,151. Both the governmental activities and the business-type activities increased in net assets, by 3.7 percent and 9.7 percent, respectively. The construction of two new recreation buildings, one at the Pier Park and the other at Kerby Field, accounts for the majority of the increase in governmental activities capital assets. A \$2.5 million bond for the Pier Park building accounts for the increase in long-term liabilities for governmental activities. Long-term liabilities increased in the business-type activities, resulting from a \$1.5 million dollar bond issuance for water plant and system improvements.

The following table shows the revenue and expense activity during June 30, 2005 and as compared to the prior year (in thousands of dollars):

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 1,401	\$ 1,386	\$ 3,333	\$ 3,219	\$ 4,734	\$ 4,605
Operating grants and contributions	1,055	701	-	-	1,055	701
General revenue:						
Property taxes	9,081	8,791	1,111	1,068	10,192	9,859
State-shared revenue	833	863	-	-	833	863
Interest	331	262	68	50	399	312
Franchise fees and other	588	560	-	-	588	560
Transfers	(120)	(120)	120	120	-	-
Total revenue	13,169	12,443	4,632	4,457	17,801	16,900
Program Expenses						
General government	3,251	2,552	-	-	3,251	2,552
Public safety	4,607	4,465	-	-	4,607	4,465
Public works	2,920	3,029	-	-	2,920	3,029
Municipal court	279	260	-	-	279	260
Recreation and culture	1,235	1,158	-	-	1,235	1,158
Interest on long-term debt	36	4	-	-	36	4
Water and sewer	-	-	3,750	3,860	3,750	3,860
Municipal radio system	-	-	280	289	280	289
Total program expenses	12,328	11,468	4,030	4,149	16,358	15,617
Net Change in Net Assets	841	975	602	308	1,443	1,283
Net Assets - Beginning of year	22,734	21,759	6,221	5,913	28,955	27,672
Net Assets - End of year	<u>\$ 23,575</u>	<u>\$ 22,734</u>	<u>\$ 6,823</u>	<u>\$ 6,221</u>	<u>\$ 30,398</u>	<u>\$ 28,955</u>

City of Grosse Pointe Farms, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The City's total governmental revenues increased approximately \$726,000, or 5.8 percent from the previous fiscal year. State-shared revenue decreases were offset by strong growth in the City's tax base, rising interest income, and \$325,000 in capital contributions for the parks and recreation buildings.

The City's total governmental expenses increased by approximately \$3,397,000, or 28.0 percent, as the City continues to invest in capital equipment and buildings.

The following represents some of the more significant financial highlights for the year ended June 30, 2005:

- The City received two capital contributions for the new buildings for the parks and recreation department. The Grosse Pointe Farms Foundation donated \$250,000 for the Community Center at the Pier Park. Nextel contributed \$75,000 for a new field house at Kerby Field. This was done in conjunction with signing a 30-year lease of the upper level of the concession stand to house cellular phone equipment. The Aline Underhill Orton Foundation has committed \$100,000 toward the construction and naming of the field house over the next five years as well.
- Interest income, our third largest single, line-item revenue source, rose by approximately \$69,000, or approximately 26 percent; overnight interest rates rose from less than 1 percent to over 3 percent by the end of the fiscal year. The City is adjusting its investment strategy to optimize investment return while minimizing maturity risk.
- The general government's increase is largely due to increased pension funding. Contributions to both of the City's pension plans increased by approximately \$193,000 over the previous year in fiscal year 2005.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund, Municipal Radio System, and Insurance Retention Fund. We provide water to our residents and the City of Grosse Pointe's residents at our municipal water filtration plant. The City pumps its sewage to the City of Detroit for treatment and disposal. This year, the City of Detroit's Water and Sewer Department (DWSD) increased the City's flow rate by 1.26 percent, as well as 3.73 percent to our storm water charge. Also, DWSD has a third fee called "lookback", which is an adjustment to the storm water charge from two years prior. The lookback can be either a charge or a credit, as the storm water fee charged two years prior is calculated to have been too low or too high, respectively. In fiscal year 2005, the City went from an \$82,508 charge to a \$42,038 credit, resulting in a net decrease in cost of \$124,546. Water and sewer rates were increased just enough to cover projected operational costs. However, the City did not sell our breakeven amount of 80 million cubic feet of water necessary to cover the fixed cost of the fund, resulting in an operating loss of \$263,127. Property tax revenue in excess of the necessary cash flow needed to make debt service payments helped keep the fund solvent.

City of Grosse Pointe Farms, Michigan

Management's Discussion and Analysis (Continued)

The City's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes, as well as show accountability for certain activities, such as the Cable T.V. Fund and Recycling Fund. The City's major funds are the General Fund and the Capital Projects Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$4,607,000 during fiscal year 2005. The General Fund is primarily supported by property taxes and state-shared revenue. The Major Streets Fund maintains the City's major streets (as contrasted with the neighborhood streets that are maintained by the Local Streets Fund), and is supported by state gas and weight taxes. The Local Streets Fund also receives gas and weight taxes, as well as transfers from the City's General Fund and Major Streets Fund. The Insurance Retention Fund accounts for expenditures for the City's self-insured workers' compensation. The Capital Projects Fund is utilized to account for purchases of individual items greater than \$5,000.

General Fund Budgetary Highlights

Approaching the end of the year, the City administration and City Council amend the budget to account for new expenditures not in the budget, as well as unanticipated expenditures. The most significant adjustments were to reduce an appropriation for debt service by \$176,901, as no new debt was issued, and to account for a refund of over \$100,000 from the Grosse Pointes-Clinton Refuse Disposal Authority for overpayment of tipping fees, as well as other disbursements. Revenues came in much higher than anticipated, as all revenue sources came in higher than anticipated. The net result was a balanced budget with no appropriation from surplus.

Capital Asset and Debt Administration

At the end of fiscal year 2005, the City had \$35.2 million invested in a wide range of capital assets, including land, buildings, fire equipment, vehicles, and water, sewer, and storm sewer lines. The value of the infrastructure, net of depreciation contained in this report, is \$3.56 million and \$3.80 million for fiscal years 2005 and 2004, respectively (see Note 3 of the notes to the basic financial statements for additional information). The value of the land improvements and buildings and improvements, net of depreciation, is \$8.81 million and \$5.31 million for the fiscal year 2005 and 2004, respectively.

City of Grosse Pointe Farms, Michigan

Management's Discussion and Analysis (Continued)

Debt reported in these financial statements is related mostly to the sewer separation project during fiscal years 2000 and 2001, and are recorded in the Water and Sewer Fund (see the schedule of indebtedness in the account groups of the financial statements). The City entered into a land installment purchase agreement in fiscal year 1995. The final installment was made in the current fiscal year.

Economic Factors and Next Year's Budgets and Rates

The City's budget for next year calls for another cut of .125 mills. This can be accomplished because of the strong growth in our tax base, as the residents continue to improve and rebuild on their properties.

On the expenditure side, medical insurance continues to increase at a rate much greater than inflation. The City has moved the administrative employees and Teamster Union employees into BC-BS Community Blue with higher prescription co-pays, and reducing premiums by about 10 percent. In May, the City began a self-insurance program with Blue Cross/Blue Shield in a further effort to reduce costs.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with an overview of the City's finances and to show the City's accountability for the revenue it receives. If you have any questions about this report or need additional information, we invite you to contact the Grosse Pointe Farms city controller's office.

City of Grosse Pointe Farms, Michigan

Statement of Net Assets June 30, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and investments (Note 2)	\$ 7,723,769	\$ 414,015	\$ 8,137,784
Receivables:			
Customers	17,538	937,912	955,450
Property taxes	193,591	34,395	227,986
Accrued interest	118,858	-	118,858
Other	206,386	-	206,386
Internal balances (Note 4)	16,173	(16,173)	-
Due from other governmental units	225,220	310,679	535,899
Inventories	14,351	11,538	25,889
Prepaid costs and other assets	65,320	14,135	79,455
Noncurrent assets:			
Restricted assets (Note 6)	736	1,517,195	1,517,931
Capital assets not being depreciated (Note 3)	5,918,821	245,604	6,164,425
Capital assets being depreciated - Net (Note 3)	<u>14,158,822</u>	<u>14,852,742</u>	<u>29,011,564</u>
Total assets	28,659,585	18,322,042	46,981,627
Liabilities			
Accounts payable	595,092	484,013	1,079,105
Accrued and other liabilities	687,665	24,732	712,397
Due to other governmental units	2,510	-	2,510
Deposits	123,598	19,777	143,375
Deferred revenue	25,000	-	25,000
Noncurrent liabilities (Note 5):			
Due within one year	415,094	762,402	1,177,496
Due in more than one year	<u>3,235,795</u>	<u>10,207,798</u>	<u>13,443,593</u>
Total liabilities	<u>5,084,754</u>	<u>11,498,722</u>	<u>16,583,476</u>
Net Assets			
Invested in capital assets - Net of related debt	17,585,403	5,695,181	23,280,584
Restricted - Roads	570,076	-	570,076
Unrestricted	<u>5,419,352</u>	<u>1,128,139</u>	<u>6,547,491</u>
Total net assets	<u>\$ 23,574,831</u>	<u>\$ 6,823,320</u>	<u>\$ 30,398,151</u>

City of Grosse Pointe Farms, Michigan

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 3,251,023	\$ 192,795	\$ 153,087	\$ -
Public safety	4,607,276	664,651	-	-
Public works	2,919,866	126,938	577,168	-
Municipal court	279,031	144,116	-	-
Recreation and culture	1,234,323	272,274	325,000	-
Interest on long-term debt	35,908	-	-	-
Total governmental activities	12,327,427	1,400,774	1,055,255	-
Business-type activities:				
Water and sewer	3,749,675	3,151,377	-	-
Municipal radio system	280,205	181,518	-	-
Total business-type activities	4,029,880	3,332,895	-	-
Total primary government	<u>\$ 16,357,307</u>	<u>\$ 4,733,669</u>	<u>\$ 1,055,255</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Franchise fees and other				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2005

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (2,905,141)	\$ -	\$ (2,905,141)
(3,942,625)	-	(3,942,625)
(2,215,760)	-	(2,215,760)
(134,915)	-	(134,915)
(637,049)	-	(637,049)
(35,908)	-	(35,908)
(9,871,398)	-	(9,871,398)
-	(598,298)	(598,298)
-	(98,687)	(98,687)
-	(696,985)	(696,985)
(9,871,398)	(696,985)	(10,568,383)
9,081,308	1,110,873	10,192,181
833,417	-	833,417
330,665	68,086	398,751
587,675	-	587,675
(120,000)	120,000	-
10,713,065	1,298,959	12,012,024
841,667	601,974	1,443,641
22,733,164	6,221,346	28,954,510
<u>\$ 23,574,831</u>	<u>\$ 6,823,320</u>	<u>\$ 30,398,151</u>

City of Grosse Pointe Farms, Michigan

Governmental Funds Balance Sheet June 30, 2005

	General	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments (Note 2)	\$ 5,087,321	\$ 1,136,412	\$ 731,696	\$ 6,955,429
Receivables:				
Taxes	193,591	-	-	193,591
Customers	-	-	17,538	17,538
Interest	90,463	12,430	11,659	114,552
Other	50,632	-	-	50,632
Prepaid costs and other assets	65,320	-	-	65,320
Due from other funds (Note 4)	16,173	-	500,000	516,173
Due from other governmental units	225,220	-	-	225,220
Restricted assets (Note 6)	-	736	-	736
Inventories	14,351	-	-	14,351
Total assets	\$ 5,743,071	\$ 1,149,578	\$ 1,260,893	\$ 8,153,542
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 354,102	\$ 208,883	\$ 32,107	\$ 595,092
Accrued and other liabilities	664,146	-	23,519	687,665
Due to other funds (Note 4)	500,000	-	-	500,000
Due to other governmental units	2,510	-	-	2,510
Deferred revenue	25,000	-	-	25,000
Cash bonds and deposits	123,598	-	-	123,598
Total liabilities	1,669,356	208,883	55,626	1,933,865
Fund Balances				
Reserved for prepaids items and inventories	79,671	-	-	79,671
Unreserved, reported in:				
General Fund	2,423,781	-	-	2,423,781
Special Revenue Funds	-	-	1,205,267	1,205,267
Designated for subsequent year's capital outlay	1,570,263	940,695	-	2,510,958
Total fund balances	4,073,715	940,695	1,205,267	6,219,677
Total liabilities and fund balances	\$ 5,743,071	\$ 1,149,578	\$ 1,260,893	\$ 8,153,542

City of Grosse Pointe Farms, Michigan

Governmental Funds Reconciliation of Fund Balance to the Statement of Net Assets Year Ended June 30, 2005

Total Fund Balances for Governmental Funds	\$ 6,219,677
Amounts reported for governmental activities in the statement of net assets are different because:	
Certain receivables are expected to be collected over several years and are not available to pay for current year expenditures	155,754
Capital assets used in governmental activities are not financial resources and are not reported in the funds	20,077,643
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(3,368,889)
Internal Service Fund is included as part of governmental activities	<u>490,646</u>
Net Assets of Governmental Activities	<u>\$ 23,574,831</u>

City of Grosse Pointe Farms, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	General Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Property taxes	\$ 9,081,308	\$ -	\$ -	\$ 9,081,308
Licenses and permits	300,392	-	-	300,392
Federal sources	47,237	27,000	78,850	153,087
State sources	857,917	-	577,168	1,435,085
Charges for services	965,203	-	113,113	1,078,316
Fines and forfeitures	426,898	-	-	426,898
Interest	266,852	46,818	16,995	330,665
Other	157,123	325,671	-	482,794
Total revenue	12,102,930	399,489	786,126	13,288,545
Expenditures				
Current:				
General government	984,008	-	-	984,008
Public safety	4,336,236	-	-	4,336,236
Public works and streets	1,406,848	-	717,164	2,124,012
Public service	429,524	-	107,649	537,173
Municipal court	278,397	-	-	278,397
Recreation and culture	932,253	-	-	932,253
Other	1,485,057	-	78,850	1,563,907
Capital outlay	-	4,632,617	-	4,632,617
Debt service	-	-	126,208	126,208
Total expenditures	9,852,323	4,632,617	1,029,871	15,514,811
Excess of Revenue Over (Under) Expenditures	2,250,607	(4,233,128)	(243,745)	(2,226,266)
Other Financing Sources (Uses)				
Transfers in (Note 4)	-	1,308,500	666,208	1,974,708
Transfers out (Note 4)	(2,056,209)	-	(215,000)	(2,271,209)
Bond proceeds (Note 5)	-	2,492,606	-	2,492,606
Total other financing sources (uses)	(2,056,209)	3,801,106	451,208	2,196,105
Net Change in Fund Balances	194,398	(432,022)	207,463	(30,161)
Fund Balances - Beginning of year	3,879,317	1,372,717	997,804	6,249,838
Fund Balances - End of year	<u>\$ 4,073,715</u>	<u>\$ 940,695</u>	<u>\$ 1,205,267</u>	<u>\$ 6,219,677</u>

City of Grosse Pointe Farms, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (30,161)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay expenditures	4,547,086
Depreciation expense	(1,017,264)
Loss on disposal of capital assets	(27,000)

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	4,865
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	90,000
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Long-term debt issuance is reported as an other financing source in the governmental funds. Long-term debt is not a revenue in the statement of activities and is reported as a long-term liability in the statement of net assets, net of bond discount amortization	(2,492,606)
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Underwriter's discount originally reported as a decrease in bond proceeds in the funds and amortized in the statement of activities over the life of the corresponding bond issue	(370)
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Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	(238,317)
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Internal Service Funds are also included as governmental activities	<u>5,434</u>
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Change in Net Assets of Governmental Activities \$ 841,667

City of Grosse Pointe Farms, Michigan

Proprietary Funds Statement of Net Assets June 30, 2005

	Business-type Activities			Governmental Activity
	Enterprise - Water and Sewer	Municipal Radio System	Total Business- type Activities	Internal Service Fund - Insurance Retention
Assets				
Current assets:				
Cash and investments (Note 2)	\$ 414,015	\$ -	\$ 414,015	\$ 768,340
Receivables:				
Customers	937,912	-	937,912	-
Property taxes	34,395	-	34,395	-
Interest	-	-	-	4,306
Due from other governmental units	-	310,679	310,679	-
Inventories	11,538	-	11,538	-
Prepaid costs and other assets	13,256	879	14,135	-
Total current assets	1,411,116	311,558	1,722,674	772,646
Noncurrent assets:				
Restricted assets (Note 6)	1,517,195	-	1,517,195	-
Capital assets not being depreciated (Note 3)	245,604	-	245,604	-
Capital assets being depreciated - Net (Note 3)	13,802,511	1,050,231	14,852,742	-
Total noncurrent assets	15,565,310	1,050,231	16,615,541	-
Total assets	16,976,426	1,361,789	18,338,215	772,646
Liabilities				
Current liabilities:				
Accounts payable	482,554	1,459	484,013	-
Accrued and other liabilities	24,732	-	24,732	-
Due to other funds (Note 4)	882	15,291	16,173	-
Deposits	-	19,777	19,777	-
Current portion of long-term debt (Note 5)	487,374	275,028	762,402	-
Total current liabilities	995,542	311,555	1,307,097	-
Noncurrent liabilities:				
Provision for uninsured losses	-	-	-	282,000
Long-term debt - Net of current portion (Note 5)	10,207,798	-	10,207,798	-
Total noncurrent liabilities	10,207,798	-	10,207,798	282,000
Total liabilities	11,203,340	311,555	11,514,895	282,000
Net Assets				
Investment in capital assets - Net of related debt	4,919,978	775,203	5,695,181	-
Unrestricted	853,108	275,031	1,128,139	490,646
Total net assets	\$ 5,773,086	\$ 1,050,234	\$ 6,823,320	\$ 490,646

City of Grosse Pointe Farms, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	Business-type Activities			Governmental Activity
	Water and Sewer	Municipal Radio System	Total Business-type Activities	Internal Service Fund - Insurance Retention
Operating Revenue				
Sale of water	\$ 1,093,009	\$ -	\$ 1,093,009	\$ -
Sewage disposal charges	1,512,239	-	1,512,239	-
Radio system charges	-	181,518	181,518	-
Other	546,129	-	546,129	-
Total operating revenue	3,151,377	181,518	3,332,895	-
Operating Expenses				
Water pumping and filtration	808,708	-	808,708	-
Sewage treatment	1,550,684	-	1,550,684	-
Sewage pumping	241,192	-	241,192	-
Water distribution	265,569	-	265,569	-
Radio system	-	181,517	181,517	-
Benefit payments	-	-	-	193,319
General and administrative expenses	272,902	-	272,902	-
Depreciation	275,449	67,087	342,536	-
Total operating expenses	3,414,504	248,604	3,663,108	193,319
Operating Loss	(263,127)	(67,086)	(330,213)	(193,319)
Nonoperating Revenue (Expense)				
Interest income	36,485	31,601	68,086	22,252
Interest expense	(335,171)	(31,601)	(366,772)	-
Property taxes	1,110,873	-	1,110,873	-
Income (Loss) - Before operating transfers	549,060	(67,086)	481,974	(171,067)
Operating Transfers In	120,000	-	120,000	176,501
Change in Net Assets	669,060	(67,086)	601,974	5,434
Net Assets - Beginning of year	5,104,026	1,117,320	6,221,346	485,212
Net Assets - End of year	<u>\$ 5,773,086</u>	<u>\$ 1,050,234</u>	<u>\$ 6,823,320</u>	<u>\$ 490,646</u>

City of Grosse Pointe Farms, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Business-type Activities			Governmental Activity
	Water and Sewer Fund	Municipal Radio System	Total Business-type Activities	Internal Service Fund - Insurance Retention
Cash Flows from Operating Activities				
Receipts from customers	\$ 2,605,248	\$ 181,518	\$ 2,786,766	\$ -
Payments to suppliers	(1,550,684)	(106,794)	(1,657,478)	-
Payments to employees	(1,315,469)	(55,344)	(1,370,813)	-
Claims paid	-	-	-	(193,319)
Other receipts (payments)	196,567	(19,380)	177,187	10,743
Net cash used in operating activities	(64,338)	-	(64,338)	(182,576)
Cash Flows from Noncapital Financing Activities -				
Operating transfers in from other funds	120,000	-	120,000	176,501
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	(204,129)	-	(204,129)	-
Property taxes	1,101,317	-	1,101,317	-
Contributions received for capital lease payments	-	259,681	259,681	-
Principal, interest, and other costs paid on long-term debt	(775,527)	-	(775,527)	-
Bond proceeds - Net of bond discount	1,495,564	-	1,495,564	-
Principal and interest paid on capital lease	-	(291,282)	(291,282)	-
Net cash provided by (used in) capital and related financing activities	1,617,225	(31,601)	1,585,624	-
Cash Flows from Investing Activities - Interest received on investments	36,485	31,601	68,086	22,252
Net Increase in Cash and Cash Equivalents	1,709,372	-	1,709,372	16,177
Cash and Cash Equivalents - Beginning of year	221,838	-	221,838	752,163
Cash and Cash Equivalents - End of year	<u>\$ 1,931,210</u>	<u>\$ -</u>	<u>\$ 1,931,210</u>	<u>\$ 768,340</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and cash equivalents	\$ 414,015	\$ -	\$ 414,015	\$ 768,340
Restricted assets (Note 6)	1,517,195	-	1,517,195	-
Total cash and cash equivalents	<u>\$ 1,931,210</u>	<u>\$ -</u>	<u>\$ 1,931,210</u>	<u>\$ 768,340</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities				
Operating loss	\$ (263,127)	\$ (67,086)	\$ (330,213)	\$ (193,319)
Adjustments to reconcile operating loss to net cash from operating activities:				
Depreciation	275,449	67,087	342,536	-
Amortization of bond discounts/premiums	2,626	-	2,626	-
Loss on sale of capital assets	28,687	-	28,687	-
Changes in assets and liabilities:				
Receivables	(17,097)	-	(17,097)	10,825
Due from other governmental units	-	26,686	26,686	-
Other assets	4,643	86	4,729	-
Accounts payable	6,983	(1,022)	5,961	(82)
Due to other funds	-	(25,751)	(25,751)	-
Current liabilities payable from restricted assets	(103,150)	-	(103,150)	-
Accrued and other liabilities	648	-	648	-
Net cash used in operating activities	<u>\$ (64,338)</u>	<u>\$ -</u>	<u>\$ (64,338)</u>	<u>\$ (182,576)</u>

Supplemental Cash Flow Information - There were no noncash transactions for the year ended June 30, 2005.

City of Grosse Pointe Farms, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2005

	Pension Trust Funds	Agency Funds Tax Collection
Assets		
Cash and cash equivalents	\$ 575,260	\$ 67,307
Investments:		
Common stock	18,959,418	-
Mutual funds	22,101,988	-
Receivables:		
Interest	94,259	-
Other	31,469	-
Due from other governmental units	230	-
Total assets	41,762,624	<u><u>\$ 67,307</u></u>
Liabilities		
Accounts payable	23,910	\$ -
Due to other governmental units	110,007	67,307
Total liabilities	133,917	<u><u>\$ 67,307</u></u>
Net Assets		
Held in trust for pension benefits	38,785,601	
Held in trust for postemployment health care benefits	2,843,106	
Total net assets	<u><u>\$ 41,628,707</u></u>	

City of Grosse Pointe Farms, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2005

	Pension Trust Funds
Additions	
Investment income:	
Interest and dividends	\$ 1,606,193
Net increases to fair market value	<u>1,464,434</u>
Net investment income	3,070,627
Contributions:	
Employer	594,090
Employee	<u>227,565</u>
Total additions	3,892,282
Deductions	
Benefit payments	1,670,114
Health benefits	361,290
Refunds to withdrawing members	31,923
Administrative expenses	<u>143,273</u>
Total deductions	<u>2,206,600</u>
Change in Net Assets	1,685,682
Net Assets Held in Trust for Pension Benefits	
Beginning of year	<u>39,943,025</u>
End of year	<u><u>\$ 41,628,707</u></u>
<u>Net Assets</u>	
Reserved for Pension Benefits - Beginning of year	\$ 37,185,134
Net Increase	<u>1,600,467</u>
Reserved for Pension Benefits - End of year	<u><u>\$ 38,785,601</u></u>
Reserved for Postemployment Health Care Benefits - Beginning of year	\$ 2,757,891
Net Increase	<u>85,215</u>
Reserved for Postemployment Health Care Benefits - End of year	<u><u>\$ 2,843,106</u></u>

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Grosse Pointe Farms (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected seven-member council. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in the City's reporting entity.

Jointly Governed Organization - The City is a member of the Grosse Pointes-Clinton Refuse Disposal Authority joint venture, which provided refuse disposal services to participating municipalities in the counties of Wayne and Macomb, Michigan. Other members include the Cities of Grosse Pointe Park, Grosse Pointe, Grosse Pointe Shores, Harper Woods, Mount Clemens, Grosse Pointe Woods, and the Township of Clinton. As a result of financial difficulty, in April 1999, the Authority's governing board ceased operations. Complete financial statements for the Grosse Pointes-Clinton Refuse Disposal Authority joint venture can be obtained from the administrative offices at 33701 Lipke Road, Clinton Township, Michigan. The City is unaware of any circumstance that would cause an additional benefit or burden to the participating governments of the above joint venture in the near future.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Capital Projects Fund is used to account for the development of capital facilities other than those financed by the operations of the business-type activities.

The City reports the following major proprietary funds:

- The Water and Sewer Fund accounts for the results of operations that provide water and sewer services to citizens and is financed by a user charge for the provision of those services.
- The Municipal Radio System Fund accounts for the financing of the municipal radio system utilized by the City and other local governments.

Additionally, the City reports the following fund types:

- The Internal Service Fund accounts for risk management services provided to other departments of the City on a cost reimbursement basis.
- The Pension Trust Funds account for the activities of the General Employees' and Public Safety Retirement Systems, which accumulate resources for pension and health care benefit payments to qualified general and public safety employees.
- The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the City's proprietary funds relates to charges to customers or other governments for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on February 28 of the following year, at which time penalties and interest are assessed.

The 2004 taxable valuation of the City totaled \$741,299,564, on which ad valorem taxes levied consisted of 10.575 mills for the City's operating purposes, 1.50 mills for debt service, and 1.30 mill for rubbish removal. The ad valorem taxes raised \$7,831,753 for general operations, \$1,110,873 for debt service, and \$962,754 for rubbish removal. These amounts are recorded in their respective funds as tax revenue.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The revenue bonds of the Water and Sewer Enterprise Fund require amounts to be set aside for operations and maintenance and debt service. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	20 to 25 years
Utility system	20 to 80 years
Buildings and building improvements	20 to 50 years
Vehicles	5 to 10 years
Office furnishings	10 to 20 years
Machinery and equipment	3 to 20 years

Compensated Absences (Vacation and Sick Leave) - The City allows employees to accumulate earned but unused sick and vacation pay benefits. The government-wide and proprietary statements accrue all vacation and sick pay as it is earned. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or employees terminate.)

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since July 1, 2000 is as follows:

Shortfall - July 1, 2004		\$ (330,697)
Current year building permit revenue	\$ 163,779	
Related expenses	<u>175,866</u>	
Net shortfall for the year ended June 30, 2005		<u>(12,087)</u>
Cumulative shortfall - June 30, 2005		<u>\$ (342,784)</u>

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The General Employees' Retirement System and Public Safety Retirement System pension trust fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$5,801,728 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. The City held deposits in 34 financial institutions as of June 30, 2005.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 2 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Negotiable certificate of deposits	\$ 2,582,133	1.10 years
U.S. government agency obligations	1,600,792	4.75 years

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Negotiable certificate of deposits	\$ 2,582,133	Not rated	N/A
U.S. government agency obligations	1,600,792	Not rated	N/A
Bank investment pool	1,213,767	AAA-AAAm	S&P
Mutual funds - Pension Fund	22,101,988	AAA-AAAm	S&P

Concentration of Credit Risk

The City places no limit on the amount that may be invested in any one issuer; however, the City's fiduciary funds subject to Michigan Public Act 485 of 1996 are limited by law in that investments in any one issuer (other than the U.S. government) may not exceed 5 percent of total investments. At June 30, 2005, there were no investments in any one issuer (other than the U.S. government) that exceeded 5 percent of total investments for the fiduciary funds.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Governmental Activities				
Capital assets not being depreciated - Land	\$ 5,918,821	\$ -	\$ -	\$ 5,918,821
Capital assets being depreciated:				
Infrastructure	6,069,812	-	-	6,069,812
Land improvements	4,514,660	57,754	498,594	4,073,820
Buildings and improvements	4,769,106	3,979,628	96,709	8,652,025
Vehicles	2,856,646	228,206	266,111	2,818,741
Office furnishings	396,282	186,075	10,229	572,128
Machinery and equipment	240,212	95,423	-	335,635
Subtotal	18,846,718	4,547,086	871,643	22,522,161
Accumulated depreciation:				
Infrastructure	2,273,111	232,437	-	2,505,548
Land improvements	2,797,771	190,967	498,762	2,489,976
Buildings and improvements	1,452,489	241,147	71,776	1,621,860
Vehicles	1,421,216	251,472	263,312	1,409,376
Office furnishings	208,900	63,196	10,793	261,303
Machinery and equipment	37,231	38,045	-	75,276
Subtotal	8,190,718	1,017,264	844,643	8,363,339
Net capital assets being depreciated	10,656,000	3,529,822	27,000	14,158,822
Net capital assets	\$ 16,574,821	\$ 3,529,822	\$ 27,000	\$ 20,077,643

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Capital Assets (Continued)

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 45,482	\$ -	\$ -	\$ 45,482
Construction in progress	15,559	147,544	(37,019)	200,122
Subtotal	61,041	147,544	(37,019)	245,604
Capital assets being depreciated:				
Utility systems	15,214,340	54,985	-	15,269,325
Buildings and building improvements	1,138,988	-	37,019	1,101,969
Vehicles	240,815	-	-	240,815
Office furnishings	74,279	1,600	-	75,879
Machinery and equipment	2,002,542	-	28,687	1,973,855
Subtotal	18,670,964	56,585	65,706	18,661,843
Accumulated depreciation:				
Utility systems	2,212,371	200,872	-	2,413,243
Buildings and building improvements	867,039	34,994	-	902,033
Vehicles	40,077	12,613	-	52,690
Office furnishings	68,806	2,693	-	71,499
Machinery and equipment	278,272	91,364	-	369,636
Subtotal	3,466,565	342,536	-	3,809,101
Net capital assets being depreciated	15,204,399	(285,951)	65,706	14,852,742
Net capital assets	\$ 15,265,440	\$ (138,407)	\$ 28,687	\$ 15,098,346

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 134,119
Public safety	142,375
Public works	438,066
Recreation and culture	302,070
District Court	634

Total governmental activities \$ 1,017,264

Business-type activities:

Water and sewer	\$ 275,449
Municipal radio system	67,087

Total business-type activities \$ 342,536

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Municipal Radio System	\$ 15,291
	Water and Sewer Fund	882
	Total General Fund	16,173
Nonmajor governmental funds	General Fund	500,000
	Total	\$ 516,173

Interfund balances represent routine and temporary cash flow assistance from the governmental funds until amounts are transferred from fund investment accounts.

Fund Transferred From	Fund Transferred To	Amount
General Fund	Nonmajor governmental funds	\$ 476,208
	Insurance Retention Fund	176,501
	Capital Projects Fund	1,283,500
	Water and Sewer Fund	120,000
	Total General Fund	2,056,209
Nonmajor governmental funds	Capital Projects Fund	25,000
	Nonmajor governmental funds	190,000
	Total nonmajor governmental funds	215,000
	Total	\$ 2,271,209

Transfers provide funding for capital projects, capital acquisitions, and debt services.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bond:							
1990 Building Authority Bonds							
Amount of issue - \$800,000							
Maturing through 2005	-	-	\$ 90,000	\$ -	\$ 90,000	\$ -	\$ -
2004 Recreation Building Bonds							
Amount of issue - \$2,500,000	2.50% -	\$46,875 -					
Maturing through 2025	4.50%	\$250,000	-	2,500,000	-	2,500,000	-
Unamortized discount of issuance			-	(7,394)	(370)	(7,024)	(370)
Total bond obligations			90,000	2,492,606	89,630	2,492,976	(370)
Other long-term obligations:							
Provision for uninsured losses			282,000	-	-	282,000	-
Compensated absences			637,596	462,880	224,563	875,913	415,464
Total governmental activities			1,009,596	2,955,486	314,193	3,650,889	415,094
Business-type Activities							
General obligation bonds:							
2000 Lakeside Sewer Separation							
Amount of issue - \$3,205,000	5.00% -	\$125,000 -					
Maturing through 2021	5.40%	\$250,000	2,905,000	-	105,000	2,800,000	125,000
Unamortized discount of issuance			(37,858)	-	(2,404)	(35,454)	(2,404)
1999 Lakeside Sewer Separation							
Amount of issue - \$7,625,000		\$330,000 -					
Maturing through 2021	2.50%	\$480,000	6,705,000	-	320,000	6,385,000	330,000
2004 General Obligation Bond							
Amount of issue - \$1,500,000	2.50% -	\$28,152 -					
Maturing through 2025	4.50%	\$150,000	-	1,500,000	-	1,500,000	-
Unamortized discount of issuance			-	(4,436)	(222)	(4,214)	(222)
Revenue bonds:							
1991 Water and Sewer Improvements							
Amount of issue - \$995,000							
Maturing through 2005	-	-	100,000	-	100,000	-	-
Capital lease obligation:							
2001 Radio System Lease							
Amount of issue - \$1,230,000							
Maturing through 2006	5.91%	\$275,028	534,709	-	259,681	275,028	275,028
Less current portion of long-term debt included in current liabilities payable from restricted assets			(100,000)	-	(100,000)	-	-
Total bond obligations			10,106,851	1,495,564	682,055	10,920,360	727,402
Other long-term obligations - Compensated absences			65,197	68,737	84,094	49,840	35,000
Total business-type activities			10,172,048	1,564,301	766,149	10,970,200	762,402
Total			\$ 11,181,644	\$ 4,519,787	\$ 1,080,342	\$ 14,621,089	\$ 1,177,496

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental and business-type bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ -	\$ 98,625	\$ 98,625	\$ 727,403	\$ 379,704	\$ 1,107,107
2007	46,875	98,039	144,914	490,499	348,599	839,098
2008	46,875	96,867	143,742	495,499	333,145	828,644
2009	62,500	95,422	157,922	514,874	317,403	832,277
2010	62,500	93,625	156,125	549,874	301,200	851,074
2011-2015	500,000	418,555	918,555	3,066,870	1,218,708	4,285,578
2016-2020	718,750	298,520	1,017,270	3,708,120	654,712	4,362,832
2021	1,055,476	121,590	1,177,066	1,367,221	98,454	1,465,675
Total	\$ 2,492,976	\$ 1,321,243	\$ 3,814,219	\$ 10,920,360	\$ 3,651,925	\$ 14,572,285

Subsequent to year end, the City Council approved the issuance of debt in the form of \$4,300,000 General Obligation Limited Tax Bonds. Payments begin in October 2007 and mature in October 2025 with interest at 3.90 percent.

Note 6 - Restricted Assets

During the year ended June 30, 2005, the City issued debt in the form of a \$4,000,000 General Obligation Limited Tax Bond. The City has total unspent bond proceeds of \$1,517,931 at June 30, 2005. Of this amount, \$1,517,195 and \$736 have been restricted in the Water and Sewer and Capital Projects Fund, respectively.

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims in excess of \$375,000 and participates in the Michigan Municipal League risk pool for claims relating to property loss and general liability; the City is uninsured for workers' compensation claims up to \$375,000. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past five fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Risk Management (Continued)

Medical

Effective May 1, 2005, the City began self-funding medical benefits up to a retention amount, at which time the City's reinsurance coverage begins. The self-funding program is done in conjunction with the cities of Grosse Pointe, Grosse Pointe Park, Grosse Pointe Woods, and the Village of Grosse Pointe Shores. The Village of Grosse Pointe Shores serves as the administrative agent for the program; however, each municipality is responsible for their individual claims.

The City estimates the liability for medical benefits claims that have been incurred through the end of the fiscal year, including claims that have been incurred but not reported. The City's liability is based on individual claims and management's evaluation of experience with respect to the probable number and nature of claims. Any adjustments resulting from the settlement of losses will be reflected at the time the adjustments are determined. The estimated liability for medical claims at June 30, 2005, as well as the claims incurred during the period from May 1, 2005 through June 30, 2005, is not significant.

Workers' Compensation

The City is self-insured for workers' compensation claims. Under the program, the City is held liable for the first \$375,000 of any occurrence. The City has purchased excess insurance to cover claims greater than \$375,000.

The City estimates the liability for workers' compensation and medical benefits that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported, which includes estimates of both future payments of losses and related claim adjustment expense, both allocated and unallocated. The liability is based on individual claims and management's evaluation of experience with respect to the probable number and nature of claims. Any adjustments resulting from the settlement of losses will be reflected in earnings at the time the adjustments are determined. These estimates are recorded in the Insurance Retention Internal Service Fund and within the governmental activities and business-type activities columns of the statement of net assets. Changes in the estimated liability for the past two fiscal years were as follows:

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Risk Management (Continued)

	2005	2004
Unpaid claims - Beginning of year	\$ 282,000	\$ 282,000
Incurred claims (including claims incurred but not reported)	193,319	140,942
Claim payments	(193,319)	(140,942)
Unpaid claims - End of year	<u>\$ 282,000</u>	<u>\$ 282,000</u>

Note 8 - Retirement Plans

Description of Plans

The City contributes to two retirement plans, the Public Safety Retirement System and the General Employees' Retirement System. The Public Safety Retirement System and the General Employees' Retirement System are the administrators of single-employer defined benefit public employee retirement systems that cover all police and fire employees and substantially all other general employees, respectively. The plans do not issue separate financial reports.

Public Safety Retirement System - The system provides retirement, disability, and death benefits to plan members and their beneficiaries. In addition to providing pension benefits, the system provides health care benefits (in accordance with labor contracts) for plan members if they reach the normal retirement age while working for the City. Currently, 33 retirees are eligible and receiving health care benefits. At June 30, 2004, the date of the most recent actuarial valuation, membership consisted of 43 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 38 current active employees.

General Employees' Retirement System - The system provides retirement, disability, and death benefits to plan members and their beneficiaries. In addition to providing pension benefits, the system provides health care benefits (in accordance with labor contracts) for plan members if they reach the normal retirement age while working for the City. Currently, 39 retirees are eligible and receiving health care benefits. At June 30, 2004, the date of the most recent actuarial valuation, membership consisted of 41 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 66 current active employees.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 8 - Retirement Plans (Continued)

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Public Safety Retirement System - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 5 percent. Future amendments to benefit provisions would involve negotiation with these collective bargaining units. Employer contributions to the system to fund health care benefits are voluntary. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

General Employees' Retirement System - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the Police Officers' Association of Michigan - Dispatchers employees of 3 percent of the first \$4,200 of gross wages and 5 percent of remaining gross wages. Future amendments to benefit provisions would involve negotiation with these collective bargaining units. All other employees' collective bargaining units require a contribution from employees of 3 percent of all gross wages. Employer contributions to the system to fund health care benefits are voluntary. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost

Public Safety Retirement System - For the fiscal year ended June 30, 2005, the City had no required pension contribution. The annual required pension contribution was determined as part of an actuarial valuation at June 30, 2003, using the entry age actuarial valuation method. Significant actuarial assumptions used include: (i) a 7.5 percent investment rate of return, (ii) projected salary increases of 5.0 percent to 8.8 percent per year, and (iii) cost-of-living adjustments at 2.5 percent per year. Assumption (ii) includes an inflation component of 5.0 percent.

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 8 - Retirement Plans (Continued)

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 10 years.

General Employees' Retirement System - For the fiscal year ended June 30, 2005, the City's annual pension cost of \$354,461 was equal to the required and actual pension contribution. The annual required pension contribution was determined as part of an actuarial valuation at June 30, 2003, using the entry age actuarial valuation method. Significant actuarial assumptions used include: (i) a 7.5 percent investment rate of return, (ii) projected salary increases of 5.0 percent to 8.8 percent per year, and (iii) cost-of-living adjustments at varying percents depending on retirement date. Assumption (ii) includes an inflation component of 5.0 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 10 years. Employer contributions to the retirement systems for the year ended June 30, 2005 pertain to the funding of postretirement health care benefits.

	Fiscal Year Ended June 30		
	2003	2004	2005
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 54,764	\$ 172,278	\$ 354,461
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Public Safety Retirement System:			
Annual pension costs (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 8 - Retirement Plans (Continued)

	Actuarial Valuation as of June 30		
	2002	2003	2004
General Employees Retirement System:			
Actuarial value of assets	\$ 14,823,722	\$ 14,317,582	\$ 13,916,791
Actuarial accrued liability (AAL)	13,004,279	13,854,511	15,692,732
Overfunded (Unfunded) AAL (UAAL)	1,819,443	463,071	(1,775,941)
Funded ratio (percent)	114.0%	103.3%	88.7%
Covered payroll	2,784,696	2,949,385	3,022,261
UAAL as a percentage of covered payroll	N/A	N/A	58.76%
Public Safety Retirement System:			
Actuarial value of assets	\$ 27,121,390	\$ 25,935,581	\$ 24,902,998
Actuarial accrued liability (AAL)	18,632,029	20,050,945	20,774,538
Overfunded (Unfunded) AAL (UAAL)	8,489,361	5,884,636	4,128,460
Funded ratio (percent)	145.6%	129.3%	119.9%
Covered payroll	2,299,362	2,377,414	2,468,182
UAAL as a percentage of covered payroll	N/A	N/A	N/A

Reserves - As of June 30, 2005, the plans' legally required reserves have been fully funded as follows:

	General Employees' Retirement System	Public Safety Retirement System	Total
Reserve for employees' contributions	\$ 2,225,562	\$ 2,042,876	\$ 4,268,438
Reserve for employers' contributions	5,777,099	10,895,551	16,672,650
Reserve for retired benefit payments	6,068,847	11,775,665	17,844,512
Total reserve for pension benefits	14,071,508	24,714,092	38,785,600
Reserve for health benefits	502,947	2,340,160	2,843,107
Total	\$ 14,574,455	\$ 27,054,252	\$ 41,628,707

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 8 - Retirement Plans (Continued)

Statement of Net Assets

	Pension Trust Funds		
	General Employees' Retirement System	Public Safety Retirement System	Total
Assets			
Cash and cash equivalents	\$ 204,635	\$ 370,625	\$ 575,260
Investments:			
Common stock	6,639,790	12,319,628	18,959,418
Mutual funds	7,745,203	14,356,785	22,101,988
Receivables:			
Interest	33,038	61,221	94,259
Other	14,736	16,733	31,469
Due from other governmental units	-	230	230
Total assets	14,637,402	27,125,222	41,762,624
Liabilities			
Accounts payable	8,369	15,541	23,910
Due to other governmental units	54,578	55,429	110,007
Total liabilities	62,947	70,970	133,917
Net Assets - Held in trust for pension and other employee benefits	\$ 14,574,455	\$ 27,054,252	\$ 41,628,707

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 8 - Retirement Plans (Continued)

Statement of Changes in Net Assets

	General Employees' Retirement System	Public Safety Retirement System	Total
Additions			
Investment income:			
Interest and dividends	\$ 559,999	\$ 1,046,194	\$ 1,606,193
Net adjustments to fair market value	509,455	954,979	1,464,434
Net investment income	1,069,454	2,001,173	3,070,627
Contributions:			
Employer	479,966	114,124	594,090
Employee	93,330	134,235	227,565
Total additions	1,642,750	2,249,532	3,892,282
Deductions			
Benefit payments	672,251	997,863	1,670,114
Health benefits	170,141	191,149	361,290
Refunds to withdrawing members	19,875	12,048	31,923
Administrative expenses	51,979	91,294	143,273
Total deductions	914,246	1,292,354	2,206,600
Net Increase	728,504	957,178	1,685,682
Net Assets Held in Trust for Pension Benefits			
Beginning of year	13,845,951	26,097,074	39,943,025
End of year	<u><u>\$ 14,574,455</u></u>	<u><u>\$ 27,054,252</u></u>	<u><u>\$ 41,628,707</u></u>
<u>Net Assets</u>			
Reserved for Pension Benefits - Beginning of year	\$ 13,345,003	\$ 23,840,131	\$ 37,185,134
Net Increase	726,506	873,961	1,600,467
Reserved for Pension Benefits - End of year	<u><u>\$ 14,071,509</u></u>	<u><u>\$ 24,714,092</u></u>	<u><u>\$ 38,785,601</u></u>
Reserved for Postemployment Health Care Benefits - Beginning of year	\$ 500,948	\$ 2,256,943	\$ 2,757,891
Net Increase	1,998	83,217	85,215
Reserved for Postemployment Health Care Benefits - End of year	<u><u>\$ 502,946</u></u>	<u><u>\$ 2,340,160</u></u>	<u><u>\$ 2,843,106</u></u>

City of Grosse Pointe Farms, Michigan

Notes to Financial Statements June 30, 2005

Note 8 - Retirement Plans (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Required Supplemental Information

City of Grosse Pointe Farms, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 3,879,317	\$ 3,879,317	\$ 3,879,317	\$ -
Resources (Inflows)				
Property taxes	9,024,500	9,053,200	9,081,308	28,108
Licenses and permits	251,700	286,700	300,392	13,692
Federal sources	-	47,200	47,237	37
State sources	826,500	866,000	857,917	(8,083)
Charges for services	766,200	857,100	965,203	108,103
Fines and forfeitures	390,500	390,500	426,898	36,398
Interest	120,000	230,000	266,852	36,852
Other	170,800	229,400	157,123	(72,277)
Total resources (inflows)	15,429,517	15,839,417	15,982,247	142,830
Charges to Appropriations (Outflows)				
General government	1,032,425	1,020,925	984,008	36,917
Public safety	4,392,997	4,355,297	4,336,236	19,061
Public works and streets	1,624,800	1,435,000	1,406,848	28,152
Public service	454,150	441,650	429,524	12,126
Municipal court	269,295	286,595	278,397	8,198
Recreation and culture	936,044	957,044	932,253	24,791
Other	1,433,880	1,507,380	1,485,057	22,323
Transfers to other funds	1,406,609	1,956,209	2,056,209	(100,000)
Total charges to appropriations (outflows)	11,550,200	11,960,100	11,908,532	51,568
Fund Balance - End of year	\$ 3,879,317	\$ 3,879,317	\$ 4,073,715	\$ 194,398

City of Grosse Pointe Farms, Michigan

Note to Required Supplemental Information June 30, 2005

Note - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department, and line item. The legal level of budgetary control adopted by the governing body is the department level.

Encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City did not incur expenditures that were in significant excess of the amounts budgeted.

City of Grosse Pointe Farms, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2005

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded AAL (UAAL) (a-b)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
<u>General Employees' Retirement System</u>						
06/30/99	\$ 12,699,675	\$ 9,938,731	\$ 2,760,944	127.8	\$ 2,502,362	-
06/30/00	14,339,521	10,267,564	4,071,957	139.7	2,484,943	-
06/30/01	15,030,637	12,277,957	2,752,680	122.4	2,766,275	-
06/30/02	14,823,722	13,004,279	1,819,443	114.0	2,784,696	-
06/30/03	14,317,582	13,854,511	463,071	103.3	2,949,385	-
06/30/04	13,916,791	15,692,732	(1,775,941)	88.7	3,022,261	58.8
<u>Public Safety Retirement System</u>						
06/30/99	23,200,027	14,108,979	9,091,048	164.4	2,141,896	-
06/30/00	26,164,064	15,290,385	10,873,679	171.1	1,877,166	-
06/30/01	27,487,631	17,616,822	9,870,809	156.0	1,994,776	-
06/30/02	27,121,390	18,632,029	8,489,361	145.6	2,299,362	-
06/30/03	25,935,581	20,050,945	5,884,636.00	129	2,377,414	-
06/30/04	24,902,998	20,774,538	4,128,460	119.9	2,468,182	-

City of Grosse Pointe Farms, Michigan

Required Supplemental Information Schedule of Employer Contributions June 30, 2005

General Employees' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
06/30/99	6/30/97	\$ -	-
06/30/00	6/30/98	-	-
06/30/01	6/30/99	-	-
06/30/02	6/30/00	-	-
06/30/03	6/30/01	54,764	100%
06/30/04	6/30/02	172,278	100%
06/30/05	6/30/03	354,461	100%

* The additional contributions reflected in the financial statements were for health care benefits.

Public Safety Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
06/30/99	6/30/97	\$ -	-
06/30/00	6/30/98	-	-
06/30/01	6/30/99	-	-
06/30/02	6/30/00	-	-
06/30/03	6/30/01	-	-
06/30/04	6/30/02	-	-
06/30/05	6/30/03	-	-

* The contributions reflected in the financial statements were for health care benefits.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2004, the latest actuarial valuation date, follows:

General Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	10 years from July 1, 2003
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	5.0% - 8.8%
*Includes inflation at	4.5%
	2.5% per year on the base retirement allowance
	(noncompounding), on January 1 after being retired six months.
Cost of living adjustments	The maximum number of increases is 15.

City of Grosse Pointe Farms, Michigan

Required Supplemental Information Schedule of Employer Contributions (Continued) June 30, 2005

Group	Applicable to Retirements with an Effective Date on or
	After
Department heads	July 1, 1991
Clerical	July 1, 1991
Dispatchers	January 1, 1992

For retirees and beneficiaries on the rolls as of June 30, 1991, a minimum retirement allowance was established equal to \$25/month times the number of years of credited service. The \$25 amount was reduced for optional forms of payment.

For department head and clerical members who retire effective on or after July 1, 2000, the amount of pension and annuity payable shall be increased each January 1 after being retired six months by 2.50 percent, compounded, of the pension and annuity that would have been paid in the absence of cost of living adjustments.

Public Safety Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	10 years from July 1, 2004
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	4.5% - 8.3%
*Includes inflation at	4.5%

Other Supplemental Information

City of Grosse Pointe Farms, Michigan

Nonmajor Special Revenue Funds				
	Major Streets	Local Streets	Cable Proceeds	Community Development Block Grant
Assets				
Cash and investments	\$ 180,689	\$ 423,014	\$ 26,966	\$ -
Receivables	-	-	-	-
Accrued interest	2,173	9,486	-	-
Due from other funds	-	-	-	-
Total assets	<u>\$ 182,862</u>	<u>\$ 432,500</u>	<u>\$ 26,966</u>	<u>\$ -</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 5,781	\$ 15,986	\$ -	\$ -
Accrued and other liabilities	<u>1,961</u>	<u>21,558</u>	<u>-</u>	<u>-</u>
Total liabilities	7,742	37,544	-	-
Fund Balances - Unreserved	<u>175,120</u>	<u>394,956</u>	<u>26,966</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 182,862</u>	<u>\$ 432,500</u>	<u>\$ 26,966</u>	<u>\$ -</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005**

Nonmajor Special Revenue Funds		Nonmajor Debt Service Fund	Total Nonmajor Governmental Funds
Recycling Program	Budget Stabilization	Debt Service	
\$ 101,027	\$ -	\$ -	\$ 731,696
17,538	-	-	17,538
-	-	-	11,659
-	500,000	-	500,000
\$ 118,565	\$ 500,000	\$ -	\$ 1,260,893
\$ 10,340	\$ -	\$ -	\$ 32,107
-	-	-	23,519
10,340	-	-	55,626
108,225	500,000	-	1,205,267
\$ 118,565	\$ 500,000	\$ -	\$ 1,260,893

City of Grosse Pointe Farms, Michigan

	Special Revenue Funds					
	Major Streets	Local Streets	Cable Proceeds	Community Development Block Grant	Recycling Program	Budget Stabilization
Revenue						
Federal sources	\$ -	\$ -	\$ -	\$ 78,850	\$ -	\$ -
State sources	411,420	165,748	-	-	-	-
Charges for services	-	-	-	-	113,113	-
Interest income	8,704	6,661	371	-	1,259	-
Total revenue	420,124	172,409	371	78,850	114,372	-
Expenditures						
Current:						
Public service	-	-	-	-	107,649	-
Public works and streets	210,601	506,563	-	-	-	-
Other	-	-	-	78,850	-	-
Debt service	-	-	-	-	-	-
Total expenditures	210,601	506,563	-	78,850	107,649	-
Excess of Revenue Over (Under) Expenditures	209,523	(334,154)	371	-	6,723	-
Other Financing Sources (Uses)						
Transfers in	-	540,000	-	-	-	-
Transfers out	(190,000)	-	(25,000)	-	-	-
Total other financing sources (uses)	(190,000)	540,000	(25,000)	-	-	-
Net Change in Fund Balances	19,523	205,846	(24,629)	-	6,723	-
Fund Balances - Beginning of year	155,597	189,110	51,595	-	101,502	500,000
Fund Balances - End of year	\$ 175,120	\$ 394,956	\$ 26,966	\$ -	\$ 108,225	\$ 500,000

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2005

Debt Service	Total Nonmajor Governmental Funds
\$ -	\$ 78,850
-	577,168
-	113,113
-	16,995
-	786,126
-	107,649
-	717,164
36,208	115,058
90,000	90,000
126,208	1,029,871
(126,208)	(243,745)
126,208	666,208
-	(215,000)
126,208	451,208
-	207,463
-	997,804
<u>\$ -</u>	<u>\$ 1,205,267</u>

City of Grosse Pointe Farms, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds Year Ended June 30, 2005

Major Streets

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 155,597	\$ 155,597	\$ 155,597	\$ -
Resources (Inflows)				
State sources	395,000	410,000	411,420	1,420
Interest	<u>1,200</u>	<u>6,200</u>	<u>8,704</u>	<u>2,504</u>
Total resources (inflows)	551,797	571,797	575,721	3,924
Charges to Appropriations (Outflows)				
Public works and streets	206,200	226,200	210,601	15,599
Transfers to other funds	<u>190,000</u>	<u>190,000</u>	<u>190,000</u>	<u>-</u>
Total charges to appropriations (outflows)	<u>396,200</u>	<u>416,200</u>	<u>400,601</u>	<u>15,599</u>
Fund Balance - End of year	<u>\$ 155,597</u>	<u>\$ 155,597</u>	<u>\$ 175,120</u>	<u>\$ 19,523</u>

Local Streets

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 189,110	\$ 189,110	\$ 189,110	\$ -
Resources (Inflows)				
State sources	157,000	165,000	165,748	748
Interest	200	4,200	6,661	2,461
Transfers from other funds	<u>440,000</u>	<u>540,000</u>	<u>540,000</u>	<u>-</u>
Total resources (inflows)	786,310	898,310	901,519	3,209
Charges to Appropriations (Outflows) -				
Public works and streets	<u>448,250</u>	<u>560,250</u>	<u>506,563</u>	<u>53,687</u>
Fund Balance - End of year	<u>\$ 338,060</u>	<u>\$ 338,060</u>	<u>\$ 394,956</u>	<u>\$ 56,896</u>

City of Grosse Pointe Farms, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds (Continued) Year Ended June 30, 2005

Cable Proceeds

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 51,595	\$ 51,595	\$ 51,595	\$ -
Resources (Inflows) - Interest	100	100	371	271
Charges to Appropriations (Outflows)				
Transfers to other funds	25,000	25,000	25,000	-
Contingency	100	100	-	100
Fund Balance - End of year	<u>\$ 26,595</u>	<u>\$ 26,595</u>	<u>\$ 26,966</u>	<u>\$ 371</u>

Community Development Block Grant

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows) - Federal sources	35,000	79,300	78,850	(450)
Charges to Appropriations (Outflows) -				
Other	35,000	79,300	78,850	450
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Grosse Pointe Farms, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds (Continued) Year Ended June 30, 2005

Recycling Program

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 101,502	\$ 101,502	\$ 101,502	\$ -
Resources (Inflows)				
Charges for services	113,000	113,000	113,113	113
Interest	400	400	1,259	859
Total resources (inflows)	214,902	214,902	215,874	972
Charges to Appropriations (Outflows) -				
Public service	113,500	113,500	107,649	5,851
Fund Balance - End of year	<u><u>\$ 101,402</u></u>	<u><u>\$ 101,402</u></u>	<u><u>\$ 108,225</u></u>	<u><u>\$ 6,823</u></u>

Budget Stabilization

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 500,000	\$ 500,000	\$ 500,000	\$ -
Resources (Inflows)	-	-	-	-
Charges to Appropriations (Outflows)	-	-	-	-
Fund Balance - End of year	<u><u>\$ 500,000</u></u>	<u><u>\$ 500,000</u></u>	<u><u>\$ 500,000</u></u>	<u><u>\$ -</u></u>

City of Grosse Pointe Farms, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2005

	Pension Trust Funds			Agency Funds
	General			
	Employees'	Public Safety		
	Retirement	Retirement		
	System	System	Total	Tax Collection
Assets				
Cash and cash equivalents	\$ 204,635	\$ 370,625	\$ 575,260	\$ 67,307
Investments:				
Common stock	6,639,790	12,319,628	18,959,418	-
Mutual funds	7,745,203	14,356,785	22,101,988	-
Receivables:				
Interest	33,038	61,221	94,259	-
Other	14,736	16,733	31,469	-
Due from other governmental units	-	230	230	-
Total assets	14,637,402	27,125,222	41,762,624	<u><u>\$ 67,307</u></u>
Liabilities				
Accounts payable	8,369	15,541	23,910	\$ -
Due to other governmental units	54,578	55,429	110,007	67,307
Total liabilities	62,947	70,970	133,917	<u><u>\$ 67,307</u></u>
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 14,574,455</u></u>	<u><u>\$ 27,054,252</u></u>	<u><u>\$ 41,628,707</u></u>	

City of Grosse Pointe Farms, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2005

	General Employees' Retirement System	Public Safety Retirement System	Total
Additions			
Investment income:			
Interest and dividends	\$ 559,999	\$ 1,046,194	\$ 1,606,193
Net adjustments to fair market value	509,455	954,979	1,464,434
Net investment income	1,069,454	2,001,173	3,070,627
Contributions:			
Employer	479,966	114,124	594,090
Employee	93,330	134,235	227,565
Total additions	1,642,750	2,249,532	3,892,282
Deductions			
Benefit payments	672,251	997,863	1,670,114
Health benefits	170,141	191,149	361,290
Refunds to withdrawing members	19,875	12,048	31,923
Administrative expenses	51,979	91,294	143,273
Total deductions	914,246	1,292,354	2,206,600
Net Increase	728,504	957,178	1,685,682
Net Assets Held in Trust for Pension Benefits			
Beginning of year	13,845,951	26,097,074	39,943,025
End of year	<u>\$ 14,574,455</u>	<u>\$ 27,054,252</u>	<u>\$ 41,628,707</u>

City of Grosse Pointe Farms, Michigan

Other Supplemental Information Statement of Changes in Assets and Liabilities Agency Fund Year Ended June 30, 2005

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
<u>Tax Collection</u>				
Assets - Cash and cash equivalents	<u>\$ 73,358</u>	<u>\$ 32,346,113</u>	<u>\$ 32,352,164</u>	<u>\$ 67,307</u>
Liabilities - Due to other governmental units	<u>\$ 73,358</u>	<u>\$ 32,346,113</u>	<u>\$ 32,352,164</u>	<u>\$ 67,307</u>

Statistical Section

All economic and statistical data was obtained from the records of the City of Grosse Pointe Farms unless otherwise noted.

City of Grosse Pointe Farms, Michigan

Fiscal Year Ended June 30	Property Taxes	Licenses and Permits	Federal Sources	State Sources	Special Assessments
1996	\$ 6,370,122	\$ 154,156	\$ 167,690	\$ 1,292,092	\$ 64,820
1997	6,564,324	187,729	49,778	1,362,805	13,383
1998	6,861,407	182,134	214,336	1,508,022	5,899
1999	7,294,661	224,590	130,427	1,568,241	-
2000	7,519,710	216,982	-	1,622,127	-
2001	8,474,589	234,481	57,002	1,622,147	-
2002	8,472,118	241,671	71,577	1,588,368	-
2003	8,677,149	258,698	58,775	1,474,255	-
2004	8,791,286	243,552	117,592	1,445,931	-
2005	9,081,308	300,392	153,087	1,435,085	-

Fiscal Year Ended June 30	General Government	Public Safety	Public Works and Streets	Public Service	Municipal Court
1996	\$ 706,622	\$ 2,965,895	\$ 1,947,270	\$ 411,186	\$ 196,339
1997	692,985	2,972,626	1,783,177	453,811	196,930
1998	738,835	3,098,627	2,097,315	417,888	171,509
1999	796,091	3,210,358	1,901,660	480,419	179,262
2000	816,110	3,284,784	1,826,554	492,013	188,768
2001	841,587	3,320,484	2,352,243	502,161	189,751
2002	945,864	3,947,885	2,135,276	551,840	219,571
2003	950,157	3,894,950	2,391,887	583,150	252,487
2004	1,028,628	4,234,782	2,483,105	562,624	259,611
2005	984,008	4,336,236	2,124,012	537,173	278,397

**General Revenues by Source and Expenditures by Function
General, Special Revenue, Debt Service, and Capital Projects Funds
Last Ten Fiscal Years**

Charges for Services	Fines and Forfeitures	Interest Income	Other	Total Revenues by Source
\$ 703,711	\$ 205,698	\$ 371,798	\$ 246,428	\$ 9,576,515
720,923	228,301	386,241	158,624	9,672,108
746,193	196,519	368,166	691,669	10,774,345
978,667	164,138	422,250	194,088	10,977,062
848,462	192,712	479,228	146,381	11,025,602
991,717	228,960	635,187	105,113	12,349,196
923,938	297,110	514,896	131,466	12,241,144
980,009	427,104	324,100	223,779	12,423,869
1,140,423	425,862	261,541	133,229	12,559,416
1,078,317	426,898	330,665	482,794	13,288,546

Capital Outlay	Parks and Recreation	Other Functions	Debt Service	Total Expenditures by Function
\$ 908,404	\$ 517,569	\$ 1,312,871	\$ 521,235	\$ 9,487,391
1,742,709	582,780	1,046,198	601,014	10,072,230
1,543,309	596,338	1,160,428	596,168	10,420,417
861,085	654,502	987,516	830,645	9,901,538
645,868	679,622	928,738	558,750	9,421,207
619,164	755,149	848,779	574,110	10,003,428
640,890	816,083	1,405,812	594,603	11,257,824
2,319,628	842,467	1,509,326	539,976	13,284,028
814,265	921,950	1,253,656	559,305	12,117,926
4,632,617	932,253	1,564,339	126,208	15,515,243

City of Grosse Pointe Farms, Michigan

	Year Ended			
	2005	2004	2003	2002
Operating Revenues	\$ 3,151,377	\$ 3,043,390	\$ 3,224,205	\$ 3,017,647
Operating Expenses	<u>3,414,504</u>	<u>3,517,151</u>	<u>3,323,106</u>	<u>2,758,839</u>
Operating Income (Loss)	(263,127)	(473,761)	(98,901)	258,808
Nonoperating Revenues (Expenses)	<u>932,187</u> (9)	<u>849,377</u> (9)	<u>1,023,967</u> (7)	<u>763,434</u> (6)
Net Income (Loss)	<u>\$ 669,060</u>	<u>\$ 375,616</u>	<u>\$ 925,066</u>	<u>\$ 1,022,242</u>
Retained Earnings	<u>\$ 5,773,086</u> (8)	<u>\$ 5,104,026</u> (8)	<u>\$ 4,728,410</u> (8)	<u>\$ 3,731,590</u>

(1) Includes an operating transfer of \$156,000

(2) Includes an operating transfer of \$162,240

(3) Includes an operating transfer of \$268,700

(4) Includes an operating transfer of \$275,400

(5) Includes an operating transfer of \$500,000

(6) Includes an operating transfer of \$380,000

(7) Includes an operating transfer of \$335,000

(8) Includes \$71,754 that had previously been classified as contributed capital

(9) Includes an operating transfer of \$120,000

**Summary of Revenues, Expenses, and Changes in Retained Earnings
Water and Sewer Enterprise Fund
Last Ten Fiscal Years**

June 30					
2001	2000	1999	1998	1997	1996
\$ 2,902,137	\$ 3,072,559	\$ 2,801,653	\$ 2,569,919	\$ 2,317,751	\$ 2,491,666
<u>3,232,357</u>	<u>2,874,689</u>	<u>2,686,827</u>	<u>2,715,150</u>	<u>2,165,905</u>	<u>2,298,664</u>
(330,220)	197,870	114,826	(145,231)	151,846	193,002
<u>540,296</u> (5)	<u>296,941</u> (4)	<u>240,940</u> (3)	<u>130,651</u> (2)	<u>126,108</u> (1)	<u>(58,348)</u>
<u>\$ 210,076</u>	<u>\$ 494,811</u>	<u>\$ 355,766</u>	<u>\$ (14,580)</u>	<u>\$ 277,954</u>	<u>\$ 134,654</u>
<u>\$ 2,709,348</u>	<u>\$ 2,499,272</u>	<u>\$ 2,004,461</u>	<u>\$ 1,648,695</u>	<u>\$ 1,663,275</u>	<u>\$ 1,385,321</u>

City of Grosse Pointe Farms, Michigan

Property Tax Levy and Collections Last Ten Fiscal Years

Fiscal Year Ended June 30	Total Tax Levy (1)	Current Collections	Percent of Levy Collected	Delinquent Collections	Total Tax Collections	Percent of Total Collections to Tax Levy
1996	\$ 6,166,944	\$ 6,073,694	98.49	\$ 98,923	\$ 6,172,617	100.09
1997	6,352,916	6,265,668	98.63	105,578	6,371,246	100.29
1998	6,600,853	6,496,864	98.42	122,184	6,619,048	100.28
1999	7,116,065	6,986,343	98.18	131,733	7,118,076	100.03
2000	7,489,783	7,195,336	96.07	131,355	7,326,691	97.82
2001	8,565,252	8,433,696	98.46	123,198	8,556,894	99.90
2002	9,012,152	8,864,391	98.36	137,220	9,001,611	99.88
2003	9,468,734	9,279,094	98.00	167,673	9,446,767	99.77
2004	9,608,324	9,434,739	98.19	152,576	9,587,315	99.78
2005	10,154,372	9,946,298	97.95	196,054	10,142,352	99.88

(1) Does not include penalty and interest on late payment of taxes

City of Grosse Pointe Farms, Michigan

Computation of Legal Debt Margin June 30, 2005

Debt Limit - 2004 state equalized valuation	\$ 741,299,564
	<u>0.10</u>
Debt limit (10 percent of equalized value)(1)	74,129,956
Debt Applicable to Debt Limit	
Total amount of debt applicable to limit	<u>13,185,000</u>
Legal Debt Margin	<u><u>\$ 60,944,956</u></u>

(1) Debt limit set forth in Section 4a, Act 279 of 1909 and Act 202, P.A. as amended by Act 42, P.A. 1960

City of Grosse Pointe Farms, Michigan

Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Expenditures Last Ten Fiscal Years

Fiscal Year Ended June 30	Debt Service Requirements			Total General Expenditures (1)	Ratio of Debt Service to General Expenditures
	Principal	Interest and Fiscal Charges	Total		
1996	\$ 90,000	\$ 72,755	\$ 162,755	\$ 9,487,391	1.72
1997	95,000	65,849	160,849	10,072,230	1.57
1998	100,000	58,418	158,418	10,420,417	1.52
1999	285,000 (2)	52,713	337,713	9,901,538	3.41
2000	65,000	28,650	93,650	9,421,207	0.99
2001	65,000	24,110	89,110	10,003,428	0.89
2002	70,000	19,603	89,603	11,257,824	0.80
2003	75,000	14,976	89,976	13,284,028	0.68
2004	85,000	9,055	94,055	12,117,926	0.78
2005	90,000	35,958	125,958	15,515,243	0.81

(1) Includes General, Special Revenue, Capital Projects, and Debt Service Funds

(2) Includes advance payment of \$145,000

City of Grosse Pointe Farms, Michigan

Revenue Bond Coverage Water and Sewer Improvement Bonds Last Ten Fiscal Years

Fiscal Year Ended June 30	Gross Revenue	Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage (Percentage) (1)
		Net of Depreciation and Interest		Principal	Interest	Total	
1996	\$ 2,506,265	\$ 2,189,557	\$ 316,708	\$ 75,000	\$ 47,371	\$ 122,371	259
1997	2,330,959	2,049,993	280,966	75,000	43,240	118,240	238
1998	2,577,093	2,600,576	(23,483)	75,000	38,763	113,763	N/A
1999	2,808,237	2,556,575	251,662	75,000	34,344	109,344	230
2000	3,136,004	2,744,140	391,864	75,000	41,904	116,904	335
2001	2,972,025	2,978,925	(6,900)	75,000	27,188	102,188	N/A
2002	3,027,640	2,504,654	522,986	100,000	21,825	121,825	429
2003	3,234,203	3,038,778	195,425	100,000	9,425	109,425	179
2004	3,047,364	3,239,973	(192,609)	100,000	3,150	103,150	N/A
2005	3,188,438	3,136,431	52,007	100,000	3,150	103,150	52

(1) Revenue bond coverage is equal to net revenue available for debt service divided by total debt service requirements.

City of Grosse Pointe Farms, Michigan

Assessed and Estimated Actual Valuation of Taxable Property Last Ten Fiscal Years

Fiscal Year Ended June 30	Real Assessed Valuation	Personal Assessed Valuation	Total Valuation	Percent of True Value (I)
1996	\$ 521,827,981	\$ 6,849,210	\$ 528,677,191	50
1997	533,571,682	7,251,320	540,823,002	50
1998	552,542,469	7,745,010	560,287,479	50
1999	571,577,044	7,518,690	579,095,734	50
2000	589,946,179	7,893,670	597,839,849	50
2001	613,930,439	7,990,500	621,920,939	50
2002	648,369,843	8,296,600	656,666,443	50
2003	681,225,294	7,980,300	689,205,594	50
2004	703,011,806	8,150,230	711,162,036	50
2005	733,187,764	8,111,800	741,299,564	50

(I) In accordance with the 1970 State of Michigan Constitution, the assessed value is 50 percent of appraised or estimated value.

City of Grosse Pointe Farms, Michigan

Property Tax Rates Direct and Overlapping Governments Last Ten Fiscal Years (per \$1,000 of assessed valuation)

Fiscal Year Ended June 30	City of Grosse Pointe Farms	Overlapping Governments				Total
		Grosse Pointe Public School System	Grosse Pointe Public Library	Wayne County	Wayne County Community College	
1996	11.75	14.16	1.20	10.25	1.28	38.64
1997	11.75	14.16	1.16	10.50	1.21	38.78
1998	11.75	13.91	1.16	10.50	1.20	38.52
1999	12.25	13.95	1.14	10.50	1.15	38.99
2000	12.25	13.78	1.14	10.45	1.02	38.64
2001	13.75	13.42	1.50	10.00	1.00	39.67
2002	13.75	13.13	1.63	10.12	2.50	41.13
2003	13.75	12.83	1.61	12.10	2.49	42.78
2004	13.50	13.44	1.58	12.10	2.48	43.10
2005	13.38	14.84	1.50	12.10	2.48	44.30

City of Grosse Pointe Farms, Michigan

Principal Taxpayers June 30, 2005

Taxpayer	2004 Assessed Valuation	Percent of Total Assessed Valuation
Country Club of Detroit	\$ 7,118,200	0.96
Kercheval Development Co.	4,693,900	0.63
Edsel B. Ford II - Cynthia	3,395,100	0.46
Anthony-Darlene Soave	2,982,700	0.40
Ray Cracchiolo	2,849,200	0.38
Detroit Edison Company	2,576,400	0.35
Richard Crawford	2,359,800	0.32
Josephine Ford	2,174,800	0.29
Premiere Equities GP, LLC	2,118,000	0.29
Michael Fisher	1,923,700	0.26
Total	\$ 32,191,800	4.34

City of Grosse Pointe Farms, Michigan

Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita Last Ten Fiscal Years

Fiscal Year Ended June 30	Assessed Value	Estimated Population	Gross Bonded Debt Outstanding	Debt Payable from Enterprise Water and Sewer Fund	Net Bonded Debt	Percent of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
1996	\$ 528,677,191	10,092 (1)	\$ 1,705,000	\$ 775,000	\$ 930,000	0.18	\$ 92.15
1997	540,823,002	10,092 (1)	1,535,000	700,000	835,000	0.15	82.74
1998	560,287,479	10,092 (1)	1,360,000	625,000	735,000	0.13	72.83
1999	579,095,734	10,092 (1)	1,000,000	550,000	450,000	0.08	44.59
2000	597,839,849	10,092 (1)	11,690,000	11,305,000	385,000	0.06	38.15
2001	621,920,939	9,764 (2)	11,550,000	11,230,000	320,000	0.05	32.77
2002	656,666,443	9,764 (2)	10,980,000	10,730,000	250,000	0.04	25.60
2003	689,205,594	9,764 (2)	10,400,000	10,225,000	175,000	0.03	17.92
2004	711,162,036	9,764 (2)	9,800,000	9,710,000	90,000	0.01	9.22
2005	741,299,564	9,764 (2)	13,185,000	10,685,000	2,500,000	0.34	256.04

(1) 1990 Federal Census

(2) 2000 Federal Census

City of Grosse Pointe Farms, Michigan

Computation of Direct and Overlapping Debt June 30, 2005

Jurisdiction	Net General Bonded Debt Outstanding	Percent Applicable to Grosse Pointe Farms	Amount Applicable to Grosse Pointe Farms
City of Grosse Pointe Farms	\$ 13,185,000	100.00	\$ 13,185,000
County of Wayne	113,048,753	1.21	1,367,890
Grosse Pointe Public Library	18,380,000	19.23	3,534,474
Wayne County Community College	67,830,000	1.91	1,295,553
Grosse Pointe School District	<u>63,835,000</u>	19.23	<u>12,275,471</u>
Total	<u>\$ 276,278,753</u>		<u>\$ 31,658,388</u>

Source: Municipal Advisory Council of Michigan, Detroit, Michigan

City of Grosse Pointe Farms, Michigan

Labor Agreements

Name	Expiration Date	Number of Employees Covered
Police Officers Association of Michigan - Public safety officers, dispatchers, and firefighters	06/30/09	40
Teamsters State, County, and Municipal Workers Local 214 - Public Works employees	06/30/09	31
Police Officers Labor Council, Command Officers Association	06/30/10	5

City of Grosse Pointe Farms, Michigan

Miscellaneous Statistical Data

Present Charter Adopted December 12, 1949
 Fiscal year begins July 1
 Form of government Council - Manager
 Area incorporated 3.19 square miles (2,042 acres)

Election Data

Registered voters, 11/2004	8,282
Votes cast, election 11/2004	6,656
Percent voting	80
Registered voters, 11/2005	7,812
Votes cast, election 11/2005	987
Percent voting	13

Public Safety Protection

Stations	1
Number of public safety officers	35
Radio equipment	2-way
Number of fire specialists	4

Building Data

1993 - 136 permits	\$ 4,890,180
1994 - 157 permits	8,647,090
1995 - 204 permits	7,516,220
1996 - 155 permits	8,708,129
1997 - 154 permits	10,413,802
1998 - 160 permits	9,212,141
1999 - 166 permits	15,621,071
2000 - 170 permits	11,040,632
2001 - 241 permits	19,102,650
2002 - 169 permits	5,823,961
2003 - 153 permits	9,355,325
2004 - 144 permits	10,076,270

Sewers

Combination storm and sanitary	36 miles
Storm sewers	18 miles
Sanitary sewers	18 miles

Population Data

1910 federal census	862
1920 federal census	1,649
1930 federal census	3,533
1940 federal census	7,217
1950 federal census	9,410
1960 federal census	12,172
1970 federal census	11,701
1980 federal census	10,551
1990 federal census	10,092
2000 federal census	9,764

Marina Data

Seasonal boat wells	291
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Number of Employees

Full-time personnel	102
Part-time personnel, summer and fall	55

Parking System

Parking lots:	
Metered - 3	114 spaces
Free - 1	11 spaces
Attended - 1	183 spaces
Street meters	389 spaces

Streets

Miles of streets:	
Major	11.18
Local	27.07
Street lights:	
Overhead	85
Ornamental	61
Ornamental long-span	808

Water Plant

City regular	4,145
City of Grosse Pointe	2,075
Maximum daily capacity	12,000,000 gd
Average pumpage per day	3,400,000 gd
Miles in water mains	42.34
Fire hydrants	500

Recreation Data

Public parks	2
Tennis courts	4
Public beach	1
Swimming pools	2

October 31, 2005

Honorable Mayor
and Members of the City Council
City of Grosse Pointe Farms
90 Kerby Road
Grosse Pointe Farms, MI 48236

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Grosse Pointe Farms for the year ended June 30, 2005. We offer the following items of an informational nature for your consideration as the policy making body of the City:

OVERVIEW OF THE CITY'S FINANCIAL CONDITION

During the year ended June 30, 2005, the financial condition of the City improved as revenue exceeded expenditures by \$194,398 in the General Fund. Fund balance in the General Fund totaled \$4,073,715 with \$79,671 reserved for prepaid items and inventory, \$1,570,263 being designated for future capital projects and the remaining \$2,423,781 being undesignated. While the increase in fund balance strengthens the General Fund's positive fiscal position, we again encourage the City to monitor and maintain adequate fund balance reserves. By maintaining an adequate fund balance, the City is able to adjust to financial changes without the need for drastic reactions to adverse circumstances.

FUNDING OF POST-EMPLOYMENT BENEFIT OBLIGATIONS

As indicated in last year's letter to Council, the Governmental Accounting Standards Board has issued Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. This pronouncement provides guidance for local units of government in recognizing the cost of retiree health care benefits. The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. For many communities, the funding of postemployment benefits is the most significant financial challenge they will face in coming years. As a result of this standard, the City will be required to have an Actuary determine the minimum liability required to fund its post-employment benefit obligation. This minimum liability will need to be ratably funded by communities over an approximate 20-plus year time frame. Although a portion of this liability has been pre-funded, it is likely that the annual contribution as required by the Actuary will result in significant additional annual expenditures for the City. The financial statement disclosure related to this pronouncement takes effect during the City's 2008-2009 fiscal year.

In addition to the amount already contributed to the pension systems for retiree health care, we believe the City should consider establishing a fund in accordance with The Public Employees Health Act of 1999 (P.A. 149 of 1999). This fund allows communities to invest assets set aside for post-employment benefit obligations in the same investment vehicles as pension funds (e.g. stocks, bonds, etc.). This fund may permit the City to advance fund retiree health care without the limitations expressed under PA 28 and IRC Section 420. In order to establish a fund in accordance with P.A. 149 of 1999, the following provisions should be considered:

- A separate "Public Employee Health Care Fund" must be established
- Withdrawals from the fund are restricted solely for the payment of health care benefits and administrative expenses.
- An investment fiduciary must be selected and an investment policy enacted.
- Determination must be made of whether the fund will be established on an actuarial basis. If the fund is not established on an actuarial basis, an actuarial study is still required every five years.

OTHER PRONOUNCEMENTS

Effective for the City's 2004/2005 fiscal year, the Governmental Accounting Standards Board required the implementation of Statement Number 40, *Deposit and Investment Risk Disclosures*. This Statement required certain disclosures of the common risks associated with deposits and investments, focusing on investments that have fair values that are highly sensitive to changes in interest rates. It is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. As a result of this pronouncement, the investment footnote in the financial statements has changed dramatically.

Effective for the year ended June 30, 2006, the City will need to implement Governmental Accounting Standards Board Statement Number 44, *Statistical Section*. This Statement will substantially change the required disclosure in the Statistical Section of the financial statements.

WATER RATE DETERMINATION AGREEMENT

The City has a contract with a neighboring community that establishes a methodology to annually measure and reset the water rate utilized for water sales between the communities. The methodology for determining rates contains fixed cost allocations for depreciation and interest expense. It appears that these fixed components have not been adjusted since the contract was last renewed in 1980. Currently, interest and depreciation account for approximately 3.96% of the overall rate calculation. Comparatively, in 1980, these components account for 10.99% of overall amount charged.

Honorable Mayor
and Members of the City Council
City of Grosse Pointe Farms

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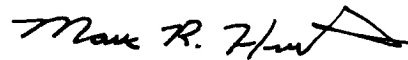
October 31, 2005

We recommend that the City consider reviewing the contract to ensure that the rates being charged properly reimburse the City for its costs to manage and maintain the water system.

We have also written a separate communication to the City's audit committee, which covers more detailed accounting items, such as our audit responsibilities, accounting policies and the use of estimates in the financial statements. We would like to thank the City for the courtesy and cooperation extended to us during this audit. We would be happy to answer any questions you may have regarding the annual financial report, and would be pleased to discuss the above comments and recommendations with you at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Mark R. Hurst



Nate A. Lewis

